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Office of Inspector General Semiannual Report To Congress

FY 1991 - First Half



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The Story in Brief

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United States
Department of
Agriculture

Office of
Inspector
General

Washington,
D.C.
20250

April 30, 1991

The Honorable Edward Madigan
Secretary of Agriculture
Washington, D.C. 20250

Dear Mr. Secretary:

In accordance with the Inspector General Act of 1978 (Public Law 95-452), as amended, I respectfully submit to you the Office of Inspector General's Semiannual Report to Congress. This report summarizes our activities for the 6-month period ending March 31, 1991. The Inspector General Act requires that you forward the enclosed report to the appropriate Congressional committees within 30 days, together with any comments you may wish to make.

During this period, our audits resulted in \$20.2 million in recoveries and collections, and \$449 million in management commitments to use funds more efficiently. In addition, our investigations resulted in 334 indictments, 409 convictions, and \$6.1 million in fines, restitutions and recoveries.

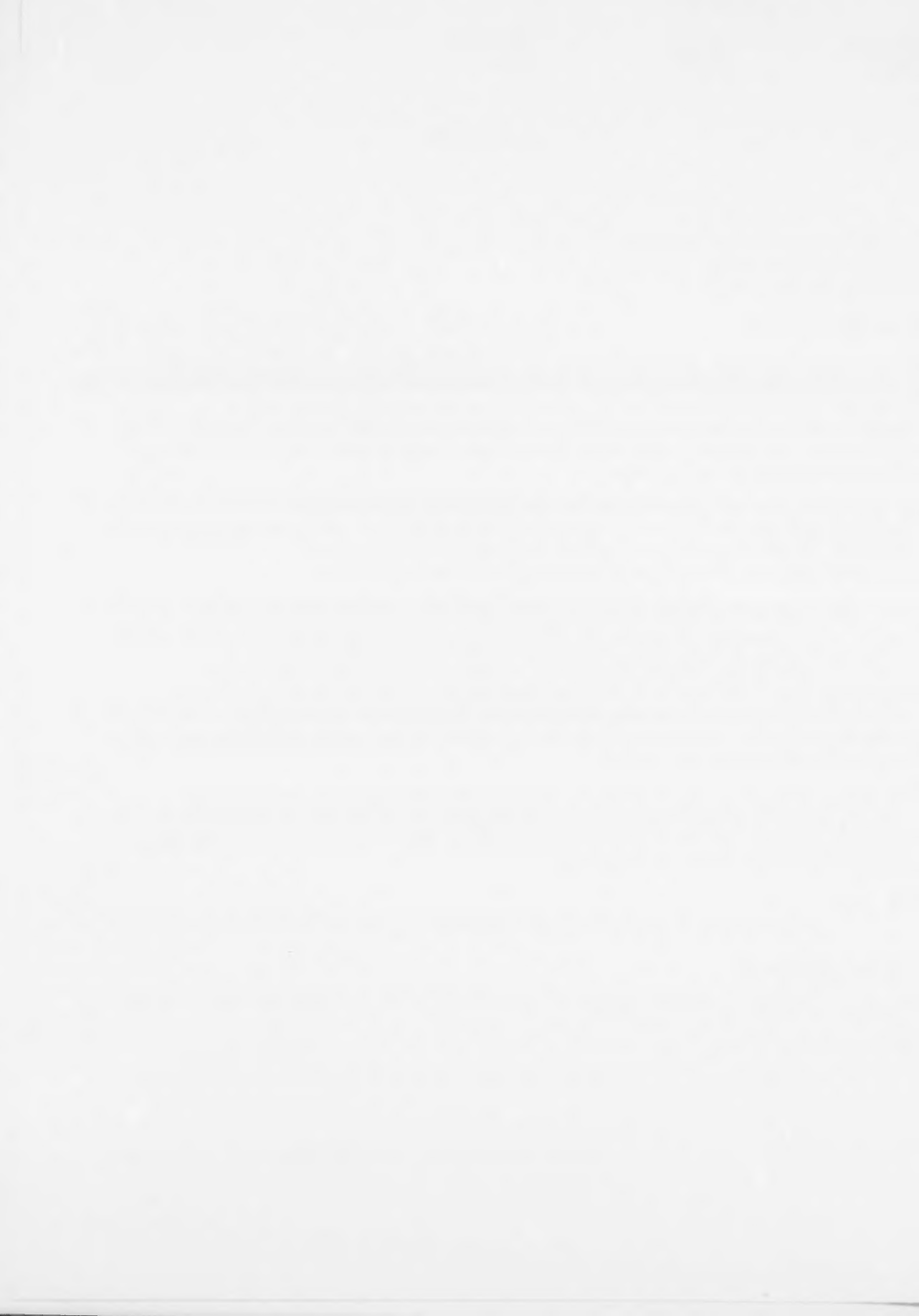
The audits summarized in this report addressed internal control weaknesses in the Export Credit Guarantee Program, the effectiveness of dairy grading activities, the financial needs of rural electric cooperatives, and questionable payments in rural housing programs. During this period, we also monitored the Department's implementation of the 1990 farm bill, and made recommendations to agency officials to strengthen proposed procedures and systems so that potential losses and problems would be prevented. Our investigative efforts focused on food stamp trafficking, and fraud in the crop insurance program.

The Office of Inspector General has enjoyed considerable support and cooperation from the Department's managers throughout the years. I look forward to continuing to work with you and the USDA program officials in our efforts to promote economy and efficiency in the Department's programs.

Sincerely,

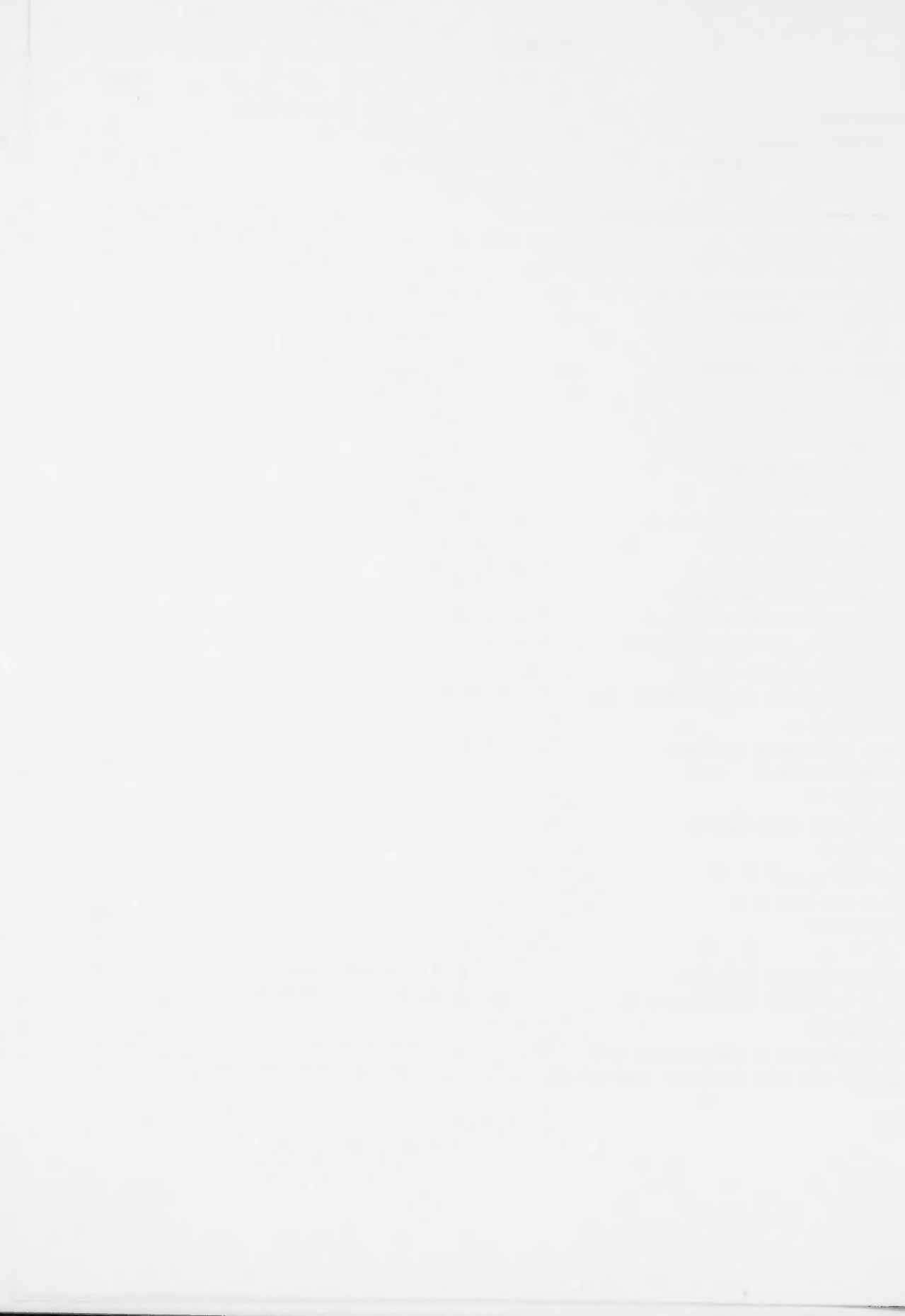
Leon Snead
LEON SNEAD
Inspector General

Enclosure



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EXECUTIVE SUMMARY

This is the 25th Semiannual Report issued by the Office of Inspector General (OIG), U.S. Department of Agriculture (USDA), pursuant to the provisions of the Inspector General Act of 1978 (Public Law 95-452) and Section 106 of the Inspector General Act Amendments (Public Law 100-504). This report reflects the changes in reporting requirements of Section 106 and covers the period October 1, 1990, through March 31, 1991.

The following excerpts summarize the results of our work, as reported in this Semiannual Report.

\$4 Billion Fraud Scheme Involves Loans to Iraq

Eight individuals and two corporations were charged in a conspiracy which resulted in over \$4 billion in unauthorized loans and credit extensions being issued to Iraq from an Italian Government-owned bank in Atlanta, Georgia. Half of the loan amount was in the form of credit, guaranteed by USDA, for the Iraqi purchase of U.S. commodities. The indictment alleged that officials of the Atlanta bank acted without the authority of their parent bank in Rome, Italy, and concealed the transactions from it and from bank examiners. Two other employees of the Atlanta bank pled guilty and are awaiting sentencing.

USDA Guaranteed \$173 Million in Sales Involving Non-U.S. Commodities

The Foreign Agricultural Service (FAS) seeks to increase exports of U.S. commodities by guaranteeing foreign payments for sales of these commodities. We found that 33 exporters violated these guarantees, issued during FY's 1986 through 1989, by including non-U.S. commodities in their exports of tobacco, fur, and cattle. Most of the ineligible exports were tobacco shipments, which contained 57 percent foreign tobacco. Iraq was one of the major importers of tobacco and if it defaults on all its payments, USDA could incur losses of over \$32 million.

Foreign Sales Guarantees Could Be Based on Inflated Commodity Values

The Commodity Credit Corporation makes payment guarantees based on the price of commodities as reported by exporters. The selling prices we reviewed exceeded market price indicators by \$78.6 million. The percentage of differences were as high as 113 percent for rice, 50 percent for corn, 37 percent for wood pulp, and 36 percent for sugar. FAS needs to review these

transactions to determine the reasons for the variances.

Exporters Inflated Sales Guarantees by "After-Sale-Service" Agreements

FAS was guaranteeing more than the actual value of commodities because exporters were including ineligible costs in these values. Most conspicuous among the ineligible costs were kickbacks called "after-sale service" payments, most of which (\$1.9 million) were paid to purchasing agents in Iraq.

Problems in the RRH Program Result in \$14.5 Million in Questionable Loans and Costs

The Farmers Home Administration (FmHA) needs to improve the way it reapportions Rural Rental Housing (RRH) funds to States and supervises RRH projects. We found questionable loans, misuse of loan funds, and unnecessary interest credits totaling about \$14.5 million. State officials approved multimillion-dollar loans without regard for conditions set by the national office. Borrowers we reviewed withdrew project funds without authorization and falsified applications for rental assistance and tenant certifications.

\$844 Million in REA Loans Could Be Better Used

The Rural Electrification Administration (REA) approved \$844 million over a 3-year period to electric cooperatives that were financially strong enough to operate without the loan subsidies. REA is constrained by law to determine the financial strength of cooperatives according to a single ratio, but we found that this ratio alone is not a reliable indicator. REA could have used the \$844 million to satisfy its backlog of applicants in greater need of assistance.

Whistleblower Leads to Disclosure of Unauthorized and Unsafe Research Activity

OIG responded to whistleblower allegations of mismanagement at the Agricultural Research Service's (ARS) Animal Parasite Research Laboratory in Auburn, Alabama, and determined that the Research Leader (RL) had utilized equipment, time, and facilities allocated to research on livestock parasites to participate in the preparation of biologicals for the treatment of AIDS victims. This activity was carried out without proper Federal licensing and in the absence of biosafety standards required by the Public Health Service. Other findings included RL violations of

agency procedures for project approval, cost accounting, and travel and leave authorizations involving over \$93,000. ARS has requested us to assist in the development of their recommendations for disciplinary action.

Food Stamp Trafficking Continues To Be a Problem

Investigations resulted in 173 arrests, 213 indictments, and 290 convictions in cases involving food stamp trafficking. The use of food stamps as a "second currency" to purchase nonfood items, stolen goods, and controlled substances is one of the greatest areas of vulnerability in the Food Stamp Program. Food stamps were exchanged for cash, weapons, crack cocaine, and, in one case, a \$30,000 house.

States Overclaimed \$7.3 Million in WIC Administrative Costs

Ten audits over the past year have identified \$7.3 million in overclaims by States for the costs of administering the Special Supplemental Food Program for Women, Infants and Children (WIC). The overclaims resulted when States claimed reimbursements for employees who did not work in the WIC program. The Food and Nutrition Service (FNS) plans to perform administrative cost reviews in the future to avoid similar problems.

Improper Certification and Processing of Food Stamp Applications Resulted in About \$8 Million in Questionable Issuances in One County

One large county did not establish sufficient controls over application processing and certification of food stamp recipients, resulting in about \$8 million in questionable issuances. Household income and expenses were undocumented, expenses were calculated incorrectly, and income matches were backlogged.

Inadequate Dairy Grading and Inspection Controls Result in Misgraded Butter

USDA dairy graders did not always correctly grade butter. More than 40 percent of the butter samples reviewed were misgraded; most received a higher grade than warranted. Also, unsanitary conditions at more than 30 percent of the dairy plants reviewed made them ineligible for USDA dairy grading. The Commodity Credit Corporation purchased about \$565 million worth of butter in FY 1989, and manufacturers may be required to repurchase any found to be misgraded.

FNS Does Not Manage Delinquent Debts Properly

At the end of FY 1989, about 98 percent of the \$760 million in debts owed by non-Federal debtors to FNS was delinquent. FNS needs to pursue collections more aggressively: it should report debtors to credit bureaus, refer accounts to collection agencies, offset Federal income tax refunds, and screen food stamp recipients, as required by the Department of the Treasury.

Security Breaches of Department Computers Are Corrected

Management and computer security personnel at the Soil Conservation Service and the Animal and Plant Health Inspection Service acted immediately to limit access to their computers after unauthorized users penetrated these multimillion-dollar systems.

SUMMARY OF AUDIT ACTIVITIES

Audit Reports Issued

Reports Issued 168

Audits Performed by OIG 78

Audits Performed Under the Single Audit Act 63

Audits Performed by Others 27

Management Decisions Made

Number of Reports 177

Number of Recommendations 844

Dollar Impact (millions)

Management Commitments To Seek Recovery \$20.2^a

Management Commitments To Put Funds to
Better Use \$449^{ac}

Total \$469.2

^a These were the amounts the auditees agreed to at the time of management decision.

^b The recoveries realized could change as the auditees implement the agreed-upon corrective action plan and seek recovery of amounts recorded as debts due the Department.

^c In this category is \$200.2 million identified as having been expended erroneously or improperly due to agency action and for which recovery is not possible. This also includes amounts incurred or earned in good faith by others because they relied on incorrect or improper guidance, interpretations, or directions by agency personnel. If statistical projections were used in determining the values, the midpoint estimate was used

SUMMARY OF INVESTIGATIVE ACTIVITIES

Investigative Reports and Cases

Reports Issued 710

Cases Opened 735

Cases Closed 569

Cases Referred for Prosecution 431

Impact of Investigations

Indictments 334

Convictions 409^a

Dollar Impact (millions)

Recoveries/Collections \$2.6^b

Restitutions \$2.2^c

Fines \$5^d

Cost Avoidance \$.8^e

Administrative Sanctions

Employees 45

Businesses/Persons 211

^a These include convictions and pretrial diversions.

^d Fines are court-ordered penalties.

^b In this category is all money received by USDA or other Government agencies as a result of OIG investigations.

^e This category consists of loans or benefits not granted as the result of an OIG investigation.

^c Restitutions are court-ordered repayments of money lost through a crime or program abuse.

PREVENTION ACTIVITIES

Implementation of the Food, Agriculture, Conservation and Trade Act of 1990

The Department must respond to a difficult challenge to quickly implement the Food, Agriculture, Conservation and Trade Act of 1990. The act not only requires implementation of new programs and requirements for 1991 within a short period, it also determines the direction for farm programs and other areas, such as credit and trade, for the next 5 years.

OIG evaluated the impact of the act on the Department's farm programs and reviewed various issue papers and draft regulations developed by the Agricultural Stabilization and Conservation Service (ASCS) to implement the act. We provided ASCS officials with suggestions for strengthening procedures and management controls in many program areas, most importantly the Conservation Reserve Program and the Payment Limitation Program.

• Conservation Reserve Program (CRP)

We commented on regulations being developed by ASCS on the bid acceptance process for the CRP program. We expressed concern with the process, which ASCS later revised to make more competitive. The revisions will also target the program to those lands where the Government can obtain the most benefits at the least cost. We are continuing our review of CRP to identify weaknesses that may exist during implementation of the revised bid acceptance process.

• Payment Limitation Program

The 1990 act requires ASCS State offices (SOs) to make person determinations for farm entities for five or more persons. Because of the number of farm entities in this category, we identified a need to limit "person" determinations made by ASCS SOs to those farm operations earning more than \$50,000. Because ASCS' resources are limited, the agency needs to target cases for determination to avoid untimely or erroneous determinations. The agency agreed to revise its approach to implementing this new provision of the act.

OIG reviewed draft regulations for other programs provided for in the act. Several regulations affected more than one program; consequently, our comments in the following areas apply to several program operations.

- Separation of corn and grain sorghum bases would reduce program flexibility and increase program costs. We recommended that these bases remain combined to avoid inconsistencies in implementation and to achieve program savings.
- In implementing the new penalty provisions for highly erodible land, we recommended that a table or formula be used to assure consistent application and that soil loss should be calculated in assessing penalties.
- ASCS emphasized the use of an erosion index in determining eligibility for the CRP. We recommended that a soil loss calculation be utilized to better measure environmental benefits.
- We recommended changes to proposed procedures to limit payments on irrigated acres. If these changes were not made, then the payments would not be limited, as intended.
- We recommended that the farmer-owned reserve be targeted at high quality grain instead of accepting a low quality to assure that quality grain is available from the reserve at times of emergency need.
- We recommended that commodity loan settlement regulations be modified to eliminate the use of mutually agreed to grades to prevent program abuse.
- We recommended that ASCS develop better guidelines for ensuring consistent financial hardship determinations for rescheduling repayment of 1988 and 1989 advance deficiency payments.
- We recommended that ASCS make timely and independent tests of system software supporting several automated payment systems.

In addition, we provided comments on new or revised program provisions concerning the Acreage Conservation Reserve, Wheat and Feed Grains, Water Quality and Environmental Easement, Dairy Price Support, Barley Assessment, and Farmer Owned Reserve Programs. We also provided the Foreign Agricultural Service (FAS) with comments about the new and revised provisions of the Export Enhancement and Market Promotion Programs.

- **Export Enhancement Program (EEP)**

The act requires the Secretary to specify the EEP criteria used to evaluate and approve proposals for the program and to publish the regulations within 180 days of enactment. However, the EEP regulations we reviewed did not contain these criteria for issuing an invitation for countries and commodities. FAS needs to establish the criteria so that proposals are handled equitably.

The EEP regulations do not contain the governmentwide provisions related to a drug-free workplace, clean air and water, influence peddling, and suspension/debarment. FAS should add these provisions to the regulations to promote program integrity and fulfill the intent of Federal legislation and policies.

The regulations state that an EEP exporter must enter an agreement with the Commodity Credit Corporation and that all amendments to the agreement must be in writing. We suggested that FAS consider developing a standard agreement form for consistency of terms and conditions of sale and publishing it in the regulations.

- **Market Promotion Program (MPP)**

We noted that the proposed regulations would allow MPP funds to be used to promote processed agricultural products which use commodities of foreign origin for up to 49 percent of their contents. The provisions of the farm bill are considerably more restrictive. We suggested that FAS obtain a legal opinion from the Office of the General Counsel on the issue of the origin of commodities. We recommended that (1) regulations require competitive bidding for procurement activities, drug-free workplace rules, and suspension and debarment provisions, and (2) the proposed rules require that each recipient of Federal funds announce the percentage of its program financed with Federal money and the dollar amount of Federal funds for that program.

We provided Department managers with our assessments in time for agencies to make revisions to avoid misunderstandings and possible overpayments. FAS officials disagreed with our comments concerning a lack of drug-free workplace rules. FAS officials do not believe the EEP is subject to the procurement requirements which contain this provision since it is a nonprocurement program. We are continuing to resolve this issue and our review of selected provisions of the act is continuing.

Implementation of the Omnibus Budget Reconciliation Act of 1990

The Omnibus Budget Reconciliation Act of 1990 requires the Rural Electrification Administration (REA) to reduce its direct loans to electric cooperatives by 25 percent and offer instead 90-percent guaranteed loans. In allocating REA's direct funding share of a borrower's project, the agency presently requires supplemental financing of 30 percent, 20 percent, or 10 percent based on the use of the plant revenue ratio. In response to the act, REA proposed to further allocate its loans "based on the need of individual borrowers." In other words, the loans would be made based on the financial strength of the borrowers. REA defined this need as "reflected by the economic conditions of the borrower's territory and the inherent cost of providing service in that territory."

We reviewed the authorizing legislation and the proposed regulations. We believe that the regulations need to be modified in order to focus more on the financial strength of REA borrowers.

In determining supplemental financing, Congress authorizes REA to establish the financial strength of electric cooperatives by using only one indicator—the plant revenue ratio. In a separate audit, we determined that the supplemental financing ratio was ineffective as an indicator of financial strength and should not be used independently of other financial ratios. (**See \$844.5 Million Could Be Better Used If Not Approved for Financially Strong Electric Cooperatives.**) Further, REA's other criteria to determine need, like the economic condition of the borrower's service territory, are not directly related to the financial strength of the borrower. Seven of the twenty-four cooperatives we found to be the strongest financially were rated by REA's proposed system as needy, and 6 of the 21 cooperatives we found to be the weakest financially were rated by REA's proposed system as strong.

Implementation of the Federal Timber Contract Payment Modification Act of 1984

The Federal Timber Contract Payment Modification Act of 1984 requires the Forest Service (FS) to address the problems that arose from speculative bidding on sales of FS timber. Many purchasers who bid high on timber during the 1970's defaulted on their high-priced contracts during the 1980's when the timber market was depressed. The act brought relief to the timber industry by allowing purchasers to buy back their contracts, and it gave protection to the FS by curbing speculative bidding on future contracts. OIG evaluated the FS' continuing implementation of this act.

To curb speculative bidding, the FS issued a proposed rule requiring downpayments on all timber sales. Although the bid premium (amount bid in excess of the advertised amount) is a good indicator of speculative bidding, in our opinion, this rule would not result in downpayments that are proportionate to the level of speculation.

Under the proposed rule, for example, a purchaser who bids twice the advertised value of the timber on a \$100,000 sale would be required to make a downpayment of 15 percent of the amount bid. However, a purchaser who bids five times the advertised value of the same sale would only be

required to make a downpayment of 18 percent of the amount bid. This increase in payment is not proportionate to the increase in bid and not reflective of the bid's highly speculative nature.

We believe the FS should increase the downpayment proportionately by the amount of the bid in excess of the advertised value. Under our calculation, a purchaser who bids five times the advertised value on a \$100,000 sale would be required to make a downpayment of 42 percent of the amount bid. FS officials advised that they disagreed with our comments. We will continue to work with the agency on this issue.

INTERNATIONAL AFFAIRS AND COMMODITY PROGRAMS

FOREIGN AGRICULTURAL SERVICE (FAS)

FAS expands foreign markets for U.S. farm commodities by gathering, analyzing, and issuing information on foreign market supply and demand; by working to gain access to foreign markets; and by promoting increased foreign consumption of U.S. agricultural commodities. The Commodity Credit Corporation (CCC) provides direct funding through such functions as the issuance of commodity certificates for the Export Enhancement and Targeted Export Assistance Programs, donations through the Section 416 Program, differential payments for ocean freight, direct loans through the Public Law 480 Title I Program, and short and intermediate term credit guarantees through the Export Credit Guarantee Program.

EXPORT CREDIT GUARANTEE PROGRAM

During this reporting period, audit and investigative emphasis was directed at the Export Credit Guarantee Programs (GSM 102 and 103). The expressed purpose of both GSM programs is to expand export sales of U.S. agricultural commodities by stimulating U.S. bank financing of foreign purchases on credit terms. The GSM 102 and 103 programs guarantee the repayment of credit extended on terms of up to 3 years and 10 years, respectively. All commodities exported under the programs must be wholly of domestic origin and not merely processed in the United States.

FAS establishes the eligibility and participant requirements for commodities, countries, and exporters. In addition, CCC guarantees that the foreign buyer will pay the U.S. exporter within a specified period. CCC itself provides funds should the purchaser default.

• Ten Indicted in \$4 Billion Fraud Involving Loans to Iraq

A Federal grand jury in Atlanta, Georgia, handed down a 347-count indictment in a \$4 billion fraud scheme involving loans to Iraq. Named in the indictment were a Turkish-owned corporation, its manager, a bank owned by the Iraqi Government, four Iraqi Government officials, and two former officers and an employee of a bank in Atlanta, Georgia, owned by the Italian Government. The indictment alleged that officials of the Atlanta branch of the Italian bank, without authority and in

disregard for the internal policies and procedures of the bank, issued more than \$4 billion in loans and credit extensions to the Government of Iraq. About half of these loans involved USDA programs. The 10 defendants were charged with conspiracy, mail and wire fraud, and other counts. Trials are pending.

The indictment did not name two additional former employees of the Atlanta bank. One was later charged with conspiracy and filing a false income tax return and the other was charged with conspiracy. Both pled guilty. Sentencing is pending.

The \$4 billion included credit agreements totaling about \$1.9 billion for the purchase of U.S. agricultural commodities exported to Iraq. CCC guaranteed the Iraqi repayment under the GSM 102 and 103 programs. The officials of the Atlanta branch also issued, without authorization, standby letters of credit totaling about \$88 million for companies exporting to Iraq and more than \$300 million for companies exporting elsewhere. These letters of credit were accepted as performance bonds under CCC's Export Enhancement Program.

The indictment alleged that the bank officers, using separate computers, word processors and disks, recorded the illegal transactions in a secret set of "grey books" and did not report them in the bank's official records. The defendants took various steps to conceal these unauthorized credit transactions from General Accounting Office investigators, USDA officials, Federal Reserve examiners, Georgia bank regulators, internal and external bank auditors, the bank headquarters in Rome, Italy, and others.

The investigation is continuing and consists of agents and auditors from OIG, the Federal Reserve Bank, the U.S. Customs Service, the Internal Revenue Service, and the Federal Bureau of Investigation under the direction of the U.S. attorney in Atlanta.

• Loan Guarantees Totaling \$173 Million That Included Foreign Content Were Made Under the GSM 102 and 103 Programs

We conducted reviews to determine whether exporters met domestic-origin requirements for selected commodities. We found that 33 exporters violated those requirements.

A total of 31 tobacco companies exported foreign tobacco, which they represented to be U.S. tobacco, for 102 of 115 loan guarantees reviewed. The loan guarantees totaled \$135 million for 80.9 million pounds of tobacco, and the foreign content accounted for 46.2 million pounds (57 percent). Two other exporters included nondomestic fur and cattle in sales guaranteed under the GSM programs. Neither exporter disclosed the foreign commodity to CCC. In these 2 cases, loan guarantees of \$38 million were made on 16 GSM agreements, of which about \$13 million is still outstanding. The value of the foreign content shipped by these two exporters was \$2.1 million.

As a result of exporting foreign commodities, these 33 companies violated the terms of the guarantees and can be held liable for any default on the \$135 million for tobacco guarantees and the \$13 million outstanding on the fur and cattle cases. As of October 19, 1990, Iraq was one of the major importers of tobacco under the GSM programs and had defaulted on eight tobacco GSM loan guarantees totaling about \$4.3 million. If Iraq defaults on all currently outstanding tobacco GSM loan guarantees, CCC will incur losses of about \$32 million.

We recommended that CCC recover any losses it may incur from the companies that exported the foreign commodities. We also recommended that these companies be suspended and debarred from participation in CCC programs. FAS agreed with our findings and our recommendations.

- **The Exporters Selling Prices Were Found to Exceed Other Market Price Indicators by About \$78.6 Million**

CCC makes payment guarantees based on the port value of the commodities as reported by the exporter. To evaluate the reasonableness of prices reported, we compared the contract prices for wood pulp, rice, corn and sugar, as reported by exporters, to the commodity futures prices or prevailing world prices for the same commodities. We reviewed 64 sales made in FY's 1987, 1988, and 1989 by 7 exporters before FAS started performing pricing reviews. We found 53 instances where the per-unit price the exporter reported to FAS materially exceeded (by more than 15 percent) the prices we used for comparison. The percentages of difference were as high as 113 percent for rice, 50 percent for corn, 37 percent for wood pulp, and 36 percent for sugar. All rice, sugar, and wood pulp were exported to Iraq and the corn was exported to Mexico. As a result, the loan guarantees could be inflated by

\$78.6 million. FAS needs to review these transactions to determine the reasons for the variances.

An example of how these price differences could affect GSM loan guarantees is illustrated by the following rice export. The exporter shipped 19,717 metric tons (MT) of rice on February 1, 1987, and 11,777 MTs of rice on April 7, 1987. The rice was sold at \$219 per MT for a port value of about \$6.9 million. However, the world price was \$125.63 per MT on February 1, 1987, and \$124.97 on April 7, 1987. Therefore, the port value could have been about \$3.9 million, or \$2.9 million less than the port value guaranteed under the GSM program.

- **Exporters Inflated Commodity Port Values by About \$2.5 Million and Included About \$1.5 Million in Freight Costs Not Paid by the Exporters**

We conducted a review of certain aspects of the GSM commodity pricing program. We found that exporters overstated port values by including kickbacks of about \$1.9 million called "after-sale service" payments. (Port value refers to the total value of the export credit sale, less any discounts or allowances. The port value may, with the approval of CCC, include freight costs for the commodity and marine and war risk insurance.) The port values were also overstated by about \$504,000 because they included such items as (1) a two-percent loss contingency, (2) an Iraqi stamp (import) tax, and (3) unauthorized insurance costs.

Companies inflated port values by including kickbacks, or "after-sale service" payments. Eleven companies made payments of \$2 million, \$1.9 million of which went to the Iraqi Government. The companies transferred the payments to foreign corporations, as directed by the purchaser in Iraq. We found that the purchaser used these payments to buy foreign machinery parts and supplies. In some cases, we could not identify what the purchaser used the payments for.

Two exporters received loan guarantees covering freight costs which they did not incur. Specifically, they overestimated the freight costs to FAS on cost and freight sales. These overestimated costs totaling \$1.5 million were included in the purchase price to the importer and covered in the loan guarantees issued by FAS.

We recommended that FAS tell exporters who included "after-sale service" payments in their port values that CCC will hold them liable for any losses



in the case of a loan default. We also recommended that FAS initiate suspension or debarment actions for those exporters who have overstated port values.

FAS started a pricing review system in FY 1990 to detect and prevent overstated port values. FAS officials agreed to clarify guidelines on exclusions from port values and to incorporate onsite reviews in their compliance program.

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE (ASCS)

ASCS administers farm commodity, conservation, environmental protection, and emergency programs. These programs provide for commodity loans and price support payments to farmers, commodity purchases from farmers and processors, commodity storage and handling, acreage reduction, cropland set-aside and other means of production adjustment, conservation cost-sharing, and emergency assistance. Financing for ASCS commodity programs comes through the CCC, a Government corporation.

For FY 1991, ASCS estimated outlays at \$2.1 billion for the traditional conservation programs and the

Conservation Reserve Program. CCC funds all other ASCS program operations, with estimated outlays of \$10.8 billion, an increase of \$4.4 billion over FY 1990.

Controls Over Warehouse Operations Need Strengthening

The primary objectives of the U.S. Warehouse Act are to protect agricultural products stored in public warehouses from loss, to ensure the integrity of warehouse receipts as documents of title, and to set and maintain a standard for sound warehouse operations. Following a reorganization in 1985, ASCS began administering a voluntary Federal licensing and examination program for warehouses storing agricultural commodities. ASCS has issued licenses to about 200 cotton warehouses, 1,800 grain warehouses, and 20 warehouses storing other agricultural commodities under the U.S. Warehouse Act. These warehouses represent about 60 percent of the commercial cotton storage capacity and about 42 percent of the commercial grain warehouse space in the Nation. At any given time, the total value of warehouse receipts representing commodities stored in federally licensed warehouses may be \$8 billion or more.

We reviewed ASCS' warehouse licensing and examination program to determine the effectiveness of ASCS' controls to protect and safeguard agricultural commodities from loss or contamination, the adequacy of ASCS' charges for services, and the adequacy of ASCS' examination procedures. Our statistical sample disclosed the following problems:

- We projected repetitive shortages and other serious problems for 638 of 1,768 grain warehouses because ASCS had not concentrated compliance efforts on known problem warehouses. A risk-based examination system could improve ASCS' oversight.
- ASCS had not assessed warehouses about \$4.5 million to cover the full cost of warehouse examinations, as required by law.
- Warehouses had not issued receipts to grain owners for an estimated \$1.1 billion worth of grain, although the U.S. Warehouse Act requires warehouses to issue receipts for all stored grain.
- ASCS accepts unaudited financial statements as evidence that warehouses meet regulatory financial requirements. ASCS' computerized financial risk rating system was ineffective in identifying warehouses in financial jeopardy.
- ASCS did not ensure that warehouses protected commodities adequately from contamination by pesticides, insects, and rodents. An estimated 260 of 1,768 grain warehouses permitted contaminants to reduce the value of depositors' grain.
- ASCS' lack of authority to impose effective sanctions for routine violations of warehouse regulations impeded program effectiveness. Sanctions available to ASCS were either too mild or too severe to provide an appropriate enforcement tool.

We recommended that ASCS (1) develop a risk-based system for scheduling warehouse examinations, (2) recover all costs of performing warehouse examinations, (3) require warehouses to submit audited financial statements, and (4) require grain

warehouses to issue receipts to depositors in a timely manner and to take appropriate action on contaminated commodities. ASCS officials did not agree with all of our recommendations. We are continuing to work with the agency to resolve the matters concerning the recovery of all costs in performing warehouse examinations and the submission of audited financial statements.

Guilty Plea for Forgeries and Fraud

A California farmer who submitted a fictitious land lease and a forged contract to participate in the 1985 Price Support and Production Adjustment Program pled guilty to making false statements to USDA. He was ordered to pay \$20,000 in restitution and serve 2 months in prison and 3 additional years on probation. The farmer had forged signatures of his partner on the land lease and the program applications. He planted crops he knew he would never harvest because of a lack of irrigation, but he continued to accept program payments for them.

Grain Warehouse Owner Convicted for Converting CCC-Owned Grain

The president of a grain elevator in South Dakota pled guilty to converting about 358,000 bushels of CCC-owned corn. He was sentenced to serve 18 months in prison. This case was referred to OIG by the ASCS Kansas City Commodity Office. An ASCS warehouse examiner assisted in the investigation. South Dakota officials are pursuing ways to recover the losses suffered by area farmers who had not received payment for the storage of grain at the warehouse at the time of its insolvency.

Vice President of Grain Warehouse Sentenced to 2 Years in Prison

The vice president of a Mississippi grain warehouse was sentenced to 2 years in prison after he pled guilty to falsifying warehouse records to deceive ASCS examiners. The investigation found that he embezzled 76,000 bushels of soybeans and 1.4 million pounds of grain sorghum, valued at \$496,000. These commodities were stored in his warehouse and belonged to CCC.

SMALL COMMUNITY AND RURAL DEVELOPMENT

FARMERS HOME ADMINISTRATION (FmHA)

FmHA is the largest direct lending institution in the Federal Government. The agency makes farm, housing, community program, and rural development loans to individuals and entities who cannot obtain credit elsewhere. Interest rates on loans may be subsidized, and a wide range of servicing options are available to borrowers who are unable to meet their debt obligations in a timely manner. As of September 30, 1990, FmHA had about 1.1 million active borrowers and a loan portfolio of over \$52 billion. In addition, FmHA has guaranteed loans totaling \$5.4 billion made by private lending institutions to 39,000 borrowers. FmHA administers its programs through the national office and a network of 46 State offices, 264 district offices, and 1,904 county offices.

RURAL RENTAL HOUSING (RRH) PROGRAM

The Housing Act of 1949 established FmHA's authority to grant RRH loans. These loans can be made to borrowers who plan to build, purchase, or repair apartment-style housing in rural areas. Annual appropriations are about \$570 million, and as of September 1990, the RRH portfolio consisted of over 15,000 borrowers with outstanding loan balances totaling \$9.4 billion. The sections below summarize the results of six audits of FmHA's administration of this program and three investigations of program borrowers.

Weaknesses in Fund Reapportionment and Project Supervision Result in Questionable Loans, Misuse of Loan Funds, and Unnecessary Interest Credit Subsidies Totaling About \$14.5 Million

- In the fourth quarter of each year, FmHA pools unused RRH funds and redistributes them to States that used their allocations but still have loan applications on file that are ready for funding. We evaluated FmHA's procedures for allocating about \$120 million in pooled RRH funds for FYs 1988 and 1989. We found that the national office did not prioritize the States' requests for pooled RRH funds, but approved the requests based on the order in which it received them. To avoid any appearance of favoritism in the allocation process, the national office implemented a procedure in FY 1990 under which it selected requests for pooled funds on a random basis. This procedure does not consider the funding priority of the projects selected; FmHA

could still approve projects with a low priority before it considers projects with a high priority.

We also reviewed FmHA controls to ensure that State offices did not approve loans of more than \$1.5 million, their established limit. State offices can approve loans over this limit if they obtain authorization from and meet all necessary conditions set by the national office. We found that the national office did not have controls in place to determine if State offices that were given approval authority met the necessary conditions. At two State offices, we reviewed three loans in excess of the \$1.5 million limit and found that two, totaling \$8.5 million, did not meet the national office conditions; the application for the third loan, totaling \$4.4 million, was withdrawn based on our audit because the loan application had not adequately shown the need for the funding. For FY's 1988 and 1989, the national office authorized the approval of an additional 33 loans totaling \$75 million without having any assurance that State offices approved these loans according to the conditions it set down.

Two State offices authorized continued processing of preapplications for an amount which exceeded their State allocation limits by \$42 million, representing over 250 percent of their annual RRH allocations. National guidelines allow State offices to authorize continued processing of applications up to 150 percent of their allocations. Overapproval causes funding delays of RRH projects until future fiscal year funds become available. It also causes FmHA to fund lower priority projects from prior years before it considers current applications potentially having a higher funding priority. We recommended that FmHA prioritize all RRH projects for which State offices are seeking pooled funds and approve projects for funding in order of their priority. We also recommended that FmHA require the State offices to show that conditions for approving loans were met, and clarify instructions that prohibit States from approving preapplications in excess of 150 percent of a State's annual loan allocation.

FmHA officials disagreed that a national ranking system was needed because loan applications had already been ranked within each State. In our opinion, this does not equitably measure the relative need of each application when viewed nationally. These officials also disagreed with our recommendation on the conditional loan approvals

because the national office does not approve, but merely authorizes, high dollar applications. State Directors certify that the conditions have been met.

Our audit showed that this system was not functioning properly. We are continuing to work with the agency to resolve this matter. The officials agreed to clarify instructions on the 150-percent issue.

- Our review of 2 RRH borrowers, 1 who managed 10 projects in 2 States and 1 who managed 2 projects, identified questionable or improper uses of project funds and benefits totaling \$1.1 million. These borrowers had a long history of not complying with program provisions.

From 1984 through 1989, the borrower with 10 projects removed about \$250,000 from the projects without FmHA approval and charged unsupported costs to the projects, including \$52,000 the borrower paid to a construction company operated by his son. This borrower also had not paid delinquent real estate taxes, had charged questionable management fees to the projects, and had not followed reporting requirements. The two FmHA State offices were aware that funds were missing but did not follow up and demand the borrower account for the funds. An investigation of this borrower has been scheduled. The second borrower had not made required transfers to the reserve account, withdrew project funds without authorization, increased rents improperly, and had not submitted required annual reports to FmHA. The borrower's records showed that he had not accounted to FmHA for about \$744,000 of project funds over a 10-year period. He also received \$66,000 in questionable rental assistance and \$26,000 in questionable interest credits.

We recommended that FmHA coordinate with the Office of the General Counsel and take servicing action to minimize losses on the cited loans. We also recommended that FmHA collect unauthorized withdrawals along with accumulated interest, and require the borrower to restore funds to the reserve account and apply the remaining funds to the FmHA loan. We further recommended recovery of the improper rental assistance and interest credit benefits, improved reporting, and initiation of debarment proceedings.

FmHA officials concurred with our recommendations, accelerated the account of one of the borrowers (the other will be the subject of an investigation), and undertook other necessary corrective actions.

- An RRH borrower who owned three projects in Texas was sentenced to 5 years' probation, fined \$75,000, and ordered to make restitution of \$121,350 to FmHA. In a plea agreement, the borrower pled guilty to one felony count of making false statements to a Government agency. The borrower agreed to sell or pay off the RRH projects within 5 years, during which time he will turn over total operational control of the projects to an independent management firm. The project manager, who cooperated by giving testimony against the borrower, was sentenced to 2 years' probation after pleading guilty to the theft of Government funds. The borrower and project manager had falsified the project application for interest credits and rental assistance.

- A borrower who owned two RRH projects in West Virginia submitted false tenant certifications to FmHA between 1982 and 1989. FmHA used these certifications to determine how much rental assistance to provide the borrower for the project. The borrower was indicted by a Federal grand jury on two counts of mail fraud and five counts of false statements. He later pled guilty to one count of mail fraud and agreed to make restitution to FmHA for about \$29,500.

- An FmHA county supervisor in New Jersey pled guilty to defrauding FmHA by accepting and keeping for his own use approximately \$3,600 from three FmHA RH applicants. The applicants thought they were paying rent to FmHA for FmHA inventory properties. The county supervisor accepted only cash, did not provide a receipt, and personally picked up the payments at the locations of the properties. He resigned and made restitution to FmHA in the amount of \$8,000. Sentencing is pending.

- Two State offices had projects with over \$325,000 in excess funds and had not applied the funds to loan debt or documented any plan for their use. These States had also provided over \$84,000 in unnecessary interest credit subsidies to 15 projects. Annual savings from cancellation of the unneeded subsidies would exceed \$65,000. The State offices were not conducting proper reviews of project operations. They also were not taking prompt, aggressive action to service RRH projects which generated more rental income than necessary for their operations.

We recommended that FmHA apply the excess funds to the FmHA loan balance, recover improper interest credit subsidies, and cancel unnecessary interest credit agreements.

FmHA officials agreed with the findings and are increasing their emphasis on monitoring projects' financial operations. They also agreed to cancel the interest credit for the projects we questioned but did not agree to recover the excess interest credit already received. Finally, they are reviewing the projects and determining what additional amounts to apply to the loans. We are working with the State offices to obtain corrective action.

Improper Payments Exceeding \$850,000 Were Made to the Rural Housing Trust Master Servicer

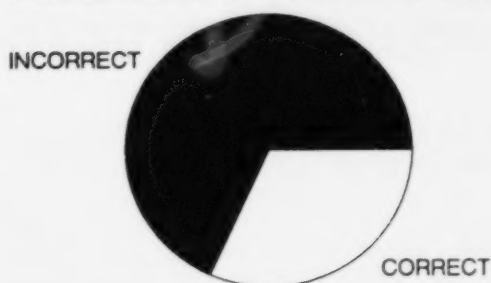
In September 1987, FmHA sold portions of its rural housing program loan portfolio to the public, based on requirements of the Omnibus Budget Reconciliation Act of 1986. FmHA received \$1.75 billion from the sale of approximately 141,000 single family housing loans. A private trust was established to administer the portfolio for the loans sold, and it contracted with a large commercial bank (master servicer) to service the loans sold. As part of the servicing agreement, the master servicer would extend interest credits to former FmHA borrowers where appropriate, and FmHA would reimburse the master servicer for these costs. Also, the master servicer would acquire a part of the borrower's equity in the property when it was sold if necessary to recapture interest credit and return this amount to FmHA. A subsidiary (subservicer) of the master servicer was responsible for the calculation and recapture of interest credits.

We reviewed the operations of the subservicer to determine if it had properly calculated and accounted for interest credits. The master servicer reported over 4,200 borrowers with interest credit transactions (as of February 14, 1990) to support its request for reimbursement. We statistically selected 92 of these transactions for review.

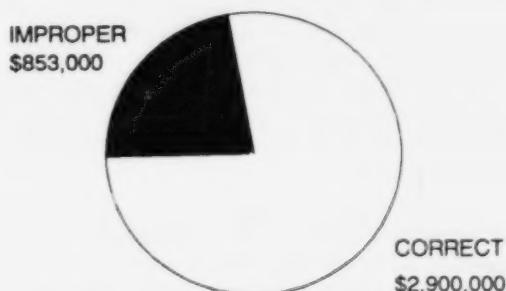
Our review disclosed that the subservicer had granted excessive interest credits to loan borrowers because its personnel made decisions that were not in compliance with FmHA regulations and its system had an error in its design. Our analysis of the 92 statistically selected borrowers disclosed that the subservicer granted improper interest credits to 63 borrowers, or 68 percent of the sample. We estimated that the subservicer had processed excessive interest credits totaling over \$853,000 for 2,872 borrowers, as shown in figure 1. FmHA's controls were inadequate for determining if the subservicer's actions were proper.

Figure 1

BORROWERS WITH INTEREST CREDIT



INTEREST CREDIT DOLLARS



We recommended that FmHA review the subservicer's operations periodically to ensure compliance with regulations. In addition, we recommended that FmHA collect the improper interest credits from the master servicer. FmHA officials agreed to establish an annual review of the subservicer's operations. These officials did not agree to review and recover all improper interest credits. In their opinion, a claim should not be based upon a statistical estimate. A statistically-valid estimate is fully supportable, in our view, and has been upheld in prior court cases. We are working with the agency to resolve this issue.

Improper FmHA Rulings on Administrative Appeals Result in Questionable Benefits Totaling About \$438,000

The Agricultural Credit Act of 1987 mandated that the Secretary establish and maintain within FmHA a national appeals division to hear appeals from borrowers and applicants concerning loan decisions.

Although the act covered farmer program borrowers specifically, FmHA applied this provision to all FmHA program participants. Since the act's implementation, hearing officers have made about 9,700 decisions (as of September 1990). To determine if the appeal process was operating properly, we reviewed 60 decisions made between June 1989 and December 1989.

We found that FmHA's national appeals staff (NAS) had not established a second-party review of its decisions. Upon completion of training and a brief probationary period, individual hearing officers were delegated authority to sign and issue appeal decision letters. NAS issued these letters directly to appellants and to FmHA program officials for implementation without prior supervisory or other second-party reviews. This control weakness resulted in questionable appeal decisions in 31 of 60 decisions we reviewed. Altogether, we questioned about \$438,000 in loan and grant approvals made to the 31 appellants. We questioned the appeal decisions because in 22 instances hearing officers violated or misapplied the regulations, and in 25 instances hearing officers did not obtain enough evidence to support the reversal of the initial decisions.

Although NAS decisions do not set precedents, decisions which deviate from prescribed agency policy can influence future decisions of both NAS and program personnel. As a result, policy errors could perpetuate themselves and have the effect of creating new agency policy.

NAS did not always meet statutory and regulatory time limits for making decisions. Although NAS tried to make decisions in a timely manner, further improvements were needed. Specifically, hearing officers did not meet the time limits in 57 of the 60 cases reviewed, and there was a backlog of 754 cases as of September 1, 1990, that already exceeded the time limits. Decisions were delayed largely because NAS personnel did not anticipate the number of appeal requests they got, participated in other duties, and had not prioritized appeal requests based on differing appeal time limits. Appeal delays frequently increase FmHA costs and loan losses and adversely affect appellants if FmHA decides they are eligible for benefits.

We recommended that FmHA require NAS supervisory personnel review decisions before they are issued. We further recommended revisions of the appeal regulations to improve management controls and to clarify appeal procedures. FmHA officials agreed to revise regulations to strengthen or clarify appeal procedures. However, FmHA officials did not agree to a

second-party review of appeal decisions. We are working with the agency to resolve this issue.

Investigation of Money-Laundering Scheme Results in Criminal Forfeiture

In Oklahoma, an FmHA borrower and his father were convicted of conspiracy and conversion of \$152,000 worth of cattle mortgaged to FmHA. The borrower's father was also convicted of money laundering (concealing the illegal source of funds spent) in the scheme. Farm equipment and a 144-acre farm purchased by the father with the proceeds of the illegal cattle sales were forfeited to the Government under the Federal criminal forfeiture statute. This is the first conviction under this statute of persons defrauding FmHA. A Federal judge also sentenced the borrower and his father to prison terms of 12 and 33 months, respectively, and ordered that they pay restitution of about \$153,000.

False Statements Made To Obtain Loan Writedown

A farmer in South Dakota pled guilty to making a false statement to FmHA to qualify for debt restructuring. The farmer failed to inform FmHA officials, who were approving his application for a \$100,000 debt writedown, that he had purchased a farm and was therefore ineligible for the writedown. The farmer was placed on probation for 18 months.

Controls Over Nonprofit National Corporations (NNC) Loan and Grant Program Need Strengthening

FmHA provides financing through grants and guaranteed loans to three NNC's to improve business and industry and provide employment opportunities in rural areas. NNC's obtain loans from lending institutions with an FmHA guarantee of up to 90 percent. The NNC's then reloan the funds to applicants for rural projects. FmHA also provides grant funds to NNC's to make loans and provide technical assistance to potential projects. Borrowers cannot use FmHA grant and guaranteed loan funds to finance more than 75 percent of a project's total cost.

We reviewed the NNCs' program activities and found that FmHA controls over technical assistance grants to NNC's were inadequate to ensure that the NNC's used the funds properly. Due to the absence of documentation and inadequate recordkeeping, two NNC's could not support their claims for reimbursement for over \$500,000 in grants. FmHA also could not ensure that the two NNC's would properly use the remaining \$1.9 million in grant funds which had been authorized but not disbursed.

The NNC's had not always complied with program regulations regarding project eligibility and accountability of loan funds. On one project, the NNC improperly included over \$227,000 on the project cost summary to show that the \$477,000 combination loan and grant represented 58 percent of the project cost, when, in fact, the loan itself represented about 80 percent of the project cost. In addition, project officials could not account for \$58,000 received for equipment purchases.

We recommended that FmHA determine the propriety of NNC grants to date and recover any funds awarded improperly, establish procedures to determine the propriety of future grants before releasing funds, and review the support for claims for grant reimbursement during field visits. We also recommended that FmHA consult with the Office of the General Counsel to determine if the cited \$477,000 combination loan and grant should be accelerated. FmHA agreed with our recommendations and has initiated corrective actions for future fund advances.

FmHA Improperly Reduced a Multimillion-Dollar Debt by \$5.4 Million

FmHA based a \$5.4 million reduction in one borrower's debt on an appraisal which was questionable. The borrower had received seven loans, totaling \$19 million, over a 12-year period for the purchase of cropland and grassland. Under the Disaster Assistance Act of 1989, FmHA could reduce the outstanding principle of these loans if the acquired land declined in value by at least 25 percent; if it was held for at least 5 years; and if the borrower, an Indian tribe, could not repay the debt without forgoing tribal services. In early 1990, FmHA reduced the debt based on an appraisal that showed the land had declined in value. However, we found that the appraisal was unreliable. The appraisal report included acres which were not purchased with FmHA funds and cropland which the appraiser valued only as grassland. FmHA was unaware of the discrepancies because it had not tracked the land purchased with FmHA funds.

We also found that \$124,000 in loan funds were used for the unauthorized purpose of acquiring accounting services unrelated to the acquisition of land within the reservation and that FmHA reamortized the reduced debt over a longer period than allowable.

We recommended that FmHA inventory the tribe's holdings obtained with FmHA loan funds, reappraise the holdings, and recompute the debt reduction amount. We also recommended that FmHA correct the final payment date of the loans, and require the tribe to return those funds used for unauthorized purposes.

FmHA officials responded that they did not believe additional benefit would accrue to the Government if an inventory of the lands were conducted and the property reappraised. We are working with the agency to achieve a management decision.

FEDERAL CROP INSURANCE CORPORATION (FCIC)

FCIC is a wholly owned Government corporation that was created in 1938 to improve the economic stability of agriculture through a system of crop insurance. The Federal Crop Insurance Act of 1980 amended the prior program by creating an expanded, subsidized, all-risk, all-counties, all-crops insurance program. The act also mandated greater involvement by the private sector. FCIC uses two systems to provide insurance—reinsured companies and master marketers. Reinsured companies are private insurance companies that sell and service policies in their own name and are reinsured by FCIC. They adjust claims for the insurance they sell. Reinsured companies handle about 85 percent of FCIC's business. Master marketers are private insurance companies that sell and service insurance for FCIC. FCIC adjusts claims for insurance sold by master marketers.

\$534,000 in Loss Claims Adjusted Incorrectly by One Reinsured Company

During this period, we reviewed five claims totaling \$3.9 million made by one reinsured company and questioned payments totaling about \$534,000 made on four of the claims. The claims paid to the five insureds represented about 29 percent of the \$13.5 million paid to this company in FY 1988.



We questioned indemnity payments of \$122,600 because adjusters had made errors in determining the amount of actual crop production and the insureds' crop share. Another insured received over \$411,000 in 1988 and 1989 indemnity payments because crop adjusters had based losses on unrealistic production guarantees. FCIC loss adjusters must report unrealistic guarantees to FCIC's actuarial division for evaluation, but FCIC does not require reinsured companies to report such information. FCIC will not hold the reinsurance companies at fault for unrealistic yield information provided by insureds.

We recommended that FCIC recover the \$122,600 in questionable indemnity payments and establish controls to prevent unrealistic production guarantees on marginal land. FCIC has agreed to review the questioned payments to determine if they should be recovered. We are continuing to work with FCIC on the remaining recommendations.

Grape Grower Convicted in Fraudulent \$1.8 Million Insurance Claim

A grape grower in Fresno, California, was indicted for submitting false claims to FCIC for a purported damaged crop of table grapes. As a result of these claims, the grower fraudulently received a \$1.8 million insurance payment in 1982 (a subsequent \$2 million indemnity for 1983 was never paid). The grower was also charged with attempted tax evasion and submitting a false income tax return. Through numerous legal challenges, the grower was able to avoid prosecution on the charges for a number of years, until he finally pled guilty in 1990. This investigation was conducted jointly with the Internal Revenue Service. Sentencing is pending.

Unrecorded Claims Result in Interest Losses Totalling \$245,000

FCIC did not promptly record claims of over \$4 million against insurance companies on FCIC's accounting records as accounts receivable. FCIC did not recognize these claims as debts until all administrative appeal rights were exhausted. Consequently, FCIC did not accrue interest of over \$245,000 on the unrecorded debt. Further, once FCIC established a debt through the appeal process, FCIC did not always record it as an accounts receivable. In addition, FCIC settled individual claims that exceeded \$20,000 instead of referring them to the Department of Justice.

FCIC did not have a separate unit for handling appeals. It had no detailed internal operating procedures for the appeal process and no tracking system to record and monitor claims being appealed. Appeal files did not contain support for the decisions reached, and FCIC

did not review appeals to determine trends, systemic problems, and control weaknesses.

We recommended that FCIC establish procedures for handling appeals. FCIC should also record overpayments as accounts receivable when it initially notifies a reinsured company or an insured of the amount owed. FCIC officials recognized there was a problem with their administrative appeal process and created a position in the fall of 1989 to improve the system. They also developed procedures for establishing accounts receivable at the time they issue initial demand letters. However, they did not agree that interest charges should begin to accrue at this time. These officials did not consider an amount owed as being a debt until the appeal process has been completed. We continue to believe that FCIC should begin to accrue interest from the time an initial demand letter is issued and we are continuing to work with the agency to resolve this matter.

Compliance Reviews of Loss Adjustment Activity Not Timely

FCIC's compliance division reviews policies written by FCIC and by reinsurance companies. It also reviews loss adjustment activities. For the 1988 and 1989 crop-years, the compliance division reviewed over 1,100 loss claims on policies written by 30 reinsured companies and identified overpayments of \$315,000 and underpayments of \$30,000.

We reviewed the compliance division's operations and found that the division took an average of 390 days to complete each review. Two cases took over 500 days to complete. Such delays jeopardize FCIC's ability to collect overpayments because reinsured companies drop out of the crop insurance program or reorganize into different entities. These actions also prevent FCIC from offsetting the overpayments against the proceeds due these companies from FCIC.

In addition, we found that the compliance division was not effective in collecting the identified overpayments. At the time of our review, FCIC had collected only about \$6,700 of the \$315,000 owed. One company that terminated its agreement with FCIC owed \$120,000.

We recommended that FCIC establish reasonable timeframes for reporting and resolving monetary findings. FCIC officials did not agree with our recommendations to establish timeframes for completing case reviews. Because of the length of time it takes to complete the reviews, we believe it is necessary for FCIC to establish reasonable timeframes. We are continuing to work with agency officials to resolve this issue.

RURAL ELECTRIFICATION ADMINISTRATION (REA)

\$844.5 Million Could Be Better Used if Not Approved for Financially Strong Electric Cooperatives

The Rural Electrification Act of 1936 authorizes REA to make subsidized loans to electric cooperatives to extend electric services to rural areas. The act also directs REA to encourage cooperatives that achieve the financial strength to function independently of REA subsidization to seek credit elsewhere.

Electric cooperatives' financial records showed that REA had not effectively encouraged financially strong cooperatives to seek credit elsewhere. REA did not employ meaningful supplemental financing criteria to determine borrowers' financial strength, partly because appropriation laws since 1983 restrict the use of this criteria. REA has been required by appropriation acts to limit direct loans to between 70 and 90 percent of the applicants' requirements, and to determine this percentage by using the plant revenue ratio (PRR) as a measure of financial strength. (The PRR is calculated by dividing the total utility plant account by operating revenue less cost of power. According to REA officials, the PRR is used as a measure of a cooperative's ability to pay all expenses. Cost of power, however, averages about 75 percent of the typical cooperative's total expenses.) We found that this ratio was an inadequate measure of financial strength and resulted in inequitable treatment of borrowers whom REA arbitrarily classified as having the same financial characteristics. Further, the use of a single ratio to determine financial strength is not consistent with accepted financial management theory or practice. The Department of Energy, for example, uses 10 diverse financial ratios to gain an understanding of financial performance.

Using a detailed financial model based upon industry standards, we analyzed the financial records of the 470 electric distribution cooperatives receiving REA direct loans in FY's 1987, 1988, and 1989 and found that REA had approved loans totaling \$844.5 million to 324 cooperatives that had sufficient financial strength to obtain credit elsewhere. REA could have used these funds to satisfy a backlog of loan applications that totaled \$510.7 million as of September 30, 1989.

We believe that a legislative solution should be initiated to change the manner in which supplemental financing is determined to focus more on financial need. We also recommended that REA develop eligibility criteria that would provide electric cooperatives direct loans based on their financial and economic need. In partial response to our audit, REA provided us with proposed regulations it published in response to a reduction in

insured loan funding imposed by the Omnibus Budget Reconciliation Act of 1990. Our comments on the proposed regulations appear in the section in Prevention Activities.

Controls Over Rural Economic Development Activities Need Strengthening

The Rural Economic Development Loan and Grant Program provides zero interest loans and grants through existing REA borrowers to create jobs and promote rural economic development. Loans and grants provided under the program must range between \$10,000 and \$100,000. At the time of our audit, REA received 96 preapplications and approved 52 of them.

We reviewed REA's procedures for allocating funds and approving preapplications for these loans and grants. We also evaluated REA's controls to ensure that REA borrowers used the funds for authorized purposes.

We reviewed 15 approved preapplications and found that REA had approved funds totaling \$280,000 for 6 existing borrowers. These borrowers were to own, manage, or operate projects to be funded through the program. Due to the ownership and management structures, conflicts of interest may exist which are prohibited by REA instructions. Also, REA did not implement uniform criteria for analyzing preapplications, did not document its reasons for selecting some projects and not others, and did not prioritize and rank projects for funding determinations. REA cannot ensure that the 52 preapplications totaling \$4.15 million were evaluated and approved properly.

We recommended that REA take appropriate actions on the projects to be owned, managed, or operated by REA borrowers. We also recommended that REA conduct uniform reviews of all preapplications received and prioritize the preapplications. Further, we recommended that a legal opinion be obtained from OGC to determine if conflicts of interest exist when an REA cooperative or corporation will own the project or when cooperative board members will participate in the project's management. REA officials did not agree that a conflict of interest existed when members of the cooperative obtained loans or grants through this program. They stated that a legal opinion was not necessary because OGC had cleared the regulation as part of the rulemaking process. These officials also disagreed that a ranking system should be established, because many of the critical selection factors are subjective. We are working with the agency to resolve these issues. REA officials agreed to conduct uniform reviews, although they believed many of the problems occurred at the beginning of the program.

SCIENCE AND EDUCATION

AGRICULTURAL RESEARCH SERVICE (ARS)

ARS is the Department's in-house research agency that provides leadership in problem solving research and technology adaptations to insure an abundance of high quality agricultural commodities and products and improve the standard of living for all Americans.

Research is conducted at 126 field locations in the United States and abroad. The FY 1991 appropriation for these activities was approximately \$665.1 million.

Whistleblower Reveals Need for Tighter Controls at Animal Parasite Research Laboratory

Responding to a whistleblower complaint, OIG reviewed the administration of projects assigned to the Animal Parasite Research Laboratory at Auburn, Alabama (APRL). Our audit found that the Research Leader (RL) may have been conducting unauthorized research involving human blood products obtained from patients with the human immunodeficiency virus (HIV). The RL had obtained these products on at least two occasions in 1984 from a New York university researcher. Further, the RL had prepared animal biologics from calves which he had injected with these HIV blood products. He then sent these products to several U.S. universities and a physician from Mexico for use in experimental treatment of human subjects. The RL misrepresented these facts to the Office of Inspector General, to his superiors, and to the Area Safety Officer. We were unable to obtain documentation of cooperative agreements, memoranda of understanding, or Food and Drug Administration approvals covering these activities.

We established that in carrying out this work, agency and Public Health Service biosafety standards for microbiological procedures had not been maintained. We provided copies of pertinent workpapers to the Centers for Disease Control (CDC) and requested their assistance in addressing biosafety concerns raised as a result of the unauthorized research. CDC responded that the material shipped to the APRL was most likely live HIV material, however, they were of the opinion that the material was handled appropriately at the laboratory so that little, if any, risk of HIV infection was posed to persons who handled it.

The audit disclosed other issues involving the administration and accounting of project funds and the supervision of employees. ARS administrative controls had failed to prevent or detect these abuses. We recommended that the agency review research activities and management practices at APRL, improve the effectiveness of their control over management at

the laboratory and take appropriate corrective action to prevent any reoccurrence of these problems. ARS officials agreed with the findings and requested additional assistance of OIG as they develop disciplinary personnel action.

EXTENSION SERVICE (ES)

ES provides the Nation with information, instruction, and practical demonstrations on the application of research and new technologies to farming, home economics, and community development. The work is carried out largely by State and county extension offices and supported through grants to land-grant colleges and universities. The FY 1991 appropriation for ES was approximately \$398.5 million.

Failure to Implement Prior Audit Recommendations Results in Continued Program Ineffectiveness at the University of the District of Columbia (UDC).

Because the ES had neither provided adequate oversight of the use of cooperative extension program (CES) funds by UDC nor ensured that corrective actions recommended by OIG in its three prior audits of the University had been implemented, longstanding problems continued to diminish the effectiveness of the CES program and caused us to question the integrity of the use of ES funding. Among the recurring problems which we identified at UDC were: inadequate planning and direction; ineffective implementation of work plans; insufficient supervision of employees and a deficient personnel policy regarding employee leave and outside employment; improperly expended funds; and no inventory showing the current use or disposition of nonexpendable property. Our audit questioned costs totaling more than \$157,000 because UDC had used program funds to pay salaries and benefits for two employees whose duties were not related to CES activity and had overcharged the program for leased facilities.

ES which concurred with our findings and recommendations has since directed UDC to develop a plan of action and a timeframe to correct these problems. The agency has stated its intention to review the plan in order to ensure its adequacy and to make periodic onsite visits to assess its implementation. The administrator has advised UDC that if the corrections do not progress satisfactorily within the proposed timeframe, ES funds will be suspended until the required corrections have been effected. ES requested UDC to review its employee time and attendance records and its inventory property in order to reconcile the amounts in question.

NATURAL RESOURCES AND ENVIRONMENT

SOIL CONSERVATION SERVICE (SCS)

SCS administers several major programs designed to help individuals, groups, organizations, and State and local governments protect and improve land and water resources. SCS carries out two basic activities: conservation operations, and watershed and flood prevention operations. For FY 1991, SCS appropriations totaled more than \$772 million.

SCS Did Not Identify Noncompliance With Conservation Requirements Accurately

The Food Security Act of 1985 limited participation in USDA farm programs to producers who agreed to apply certain soil conservation practices to highly erodible land and wetlands used for crop production. The conservation provisions required producers to obtain an approved conservation plan, to implement the plan according to an approved schedule, and to complete the activities stipulated in the plan by January 1, 1995. SCS is responsible for approving the plans and testing producer compliance with the implementation schedule.

We evaluated SCS' producer compliance review process and determined that the agency's policies resulted in inaccurate reporting of producer compliance with the conservation plans. The applicable procedures provided conflicting objectives and did not ensure effective reviews, appropriate sample selections, fair and objective reports, or adequate corrective actions for deficient conservation activities.

We recommended that the agency revise its procedures to be consistent with the requirements of the Food Security Act and governing regulations. We also recommended that the revised procedures provide for logical objectives, adequate statements of scope, accurate reporting, uniform sampling, and better followup.

SCS concurred with our conclusions and agreed to revise its national policies and procedures.

FOREST SERVICE (FS)

The FS manages over 191 million acres of the National Forest System, conducts a State and private forestry

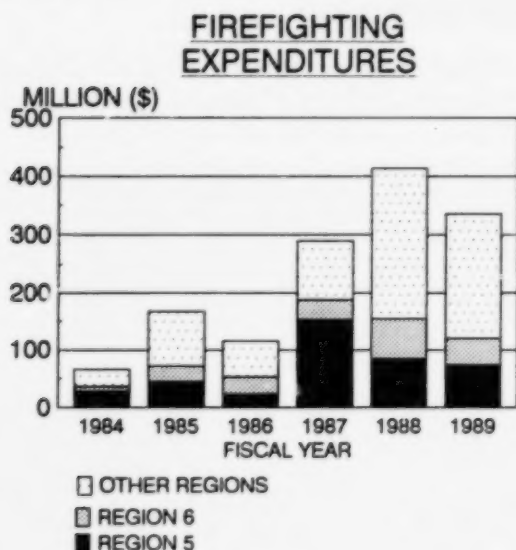


program, and provides national leadership in forest and range research. For FY 1991, the FS appropriation is about \$3.1 billion, and timber sales and other receipts are estimated to be about \$1.6 billion.

Improved Accountability Needed Over Firefighting Equipment, Inventory, and Procurement

The emergency firefighting program provides funds for fighting forest fires and for rehabilitating burned National Forest System lands. Since total firefighting expenditures are not known until after the fire season, they can vary significantly from year to year. For FY 1984-89, the FS charged \$1.4 billion to its firefighting fund. Two regions accounted for \$623 million, or 45 percent, of these charges. Figure 2 compares firefighting costs for the two regions to firefighting costs nationwide.

Figure 2



The National Cache System, which coordinates the emergency procurement and storage of firefighting equipment, comprises 11 facilities nationwide. Teams that fight large fires generally procure their equipment from these facilities, but they may also procure it directly from the General Services Administration or the open market.

We evaluated FS controls over procurement and use of firefighting equipment, and over accountability of assets in fire caches. Typical inventory of equipment would include such things as hoses, picks, shovels, and chain saws. Our audit of emergency firefighting operations in two regions for FY's 1989 and 1990 (through March 1990) identified four areas that needed improvement:

- The FS lacked procedures to reconcile actual inventory counts with inventory records. Further, duties relating to the physical custody of inventory were not separated from the maintenance and control of inventory records.
- The FS needs to analyze incidents better where excessive equipment losses have occurred and ensure it investigates the losses. Our review of 13 fires in the 2 regions we visited disclosed equipment loss rates ranging from 7 percent to 100 percent. For five of these fires, the losses were 50 percent or greater.
- The FS did not ensure that regions used firefighting funds only to procure equipment needed to fight fires, or that the items procured were accounted for. At two forests in the Pacific Southwest and one forest in the Pacific Northwest, we identified items costing \$82,600 that forest level officials had procured improperly with firefighting funds, including a forklift, a heat pump, and computer equipment. We identified additional items costing about \$13,000 that, although eligible for firefighting funding, had not been accounted for properly. Local units had retained these items instead of placing them in the National Cache System after the fire season.
- The FS needs to establish a system to coordinate firefighting equipment maintained by local units. The FS may have procured items unnecessarily for the National Cache System that were already in local caches. In 1989, the national cache in one region we reviewed increased the value of its inventory for eight common firefighting equipment items by approximately \$1.1 million above the previous stocking level. At the same time, local caches in three of the region's forests maintained inventories valued at approximately \$1.2 million for the same eight items. See photograph of equipment stored in a forest cache of that region.



We recommended that the FS establish procedures to reconcile fire cache inventories, and ensure that the key duties are separated in national caches. In addition, we recommended that the FS establish fire loss tolerance rates, investigate excessive losses, and

coordinate local firefighting equipment inventories with the National Cache System.

FS officials agreed with our recommendations and have initiated corrective actions. A National Automated Cache System and a Comprehensive Cache Management Plan are being developed in conjunction with the Bureau of Land Management and the General Services Administration.

Civil Settlement of \$870,000 Reached in Timber Theft Case

In Washington State, an individual and his bonding company have agreed to pay the Federal Government a total of \$870,000 to settle a contract dispute related to the theft of FS timber. The individual, an owner of a timber company and an FS contractor, and four others pled guilty to conspiracy and timber theft in 1988. The investigation was conducted by OIG and FS special agents.

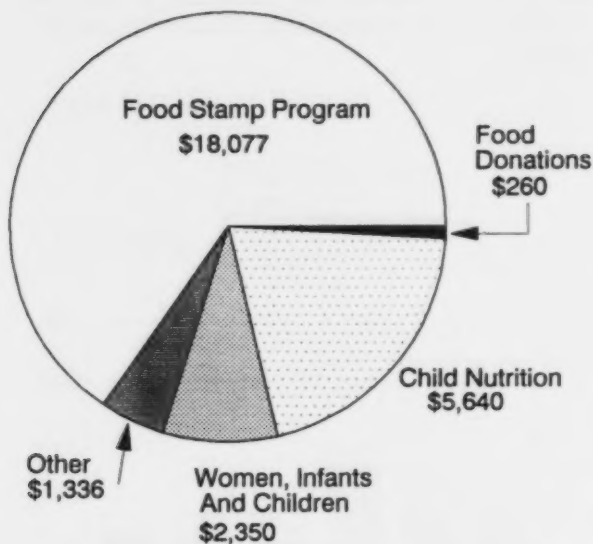
FOOD AND CONSUMER SERVICES

FOOD AND NUTRITION SERVICE (FNS)

FNS administers 13 programs, including the Food Stamp Program, the Child Nutrition Program, and the Special Supplemental Food Program for Women, Infants, and Children. Figure 3 shows the estimated spending for FY 1991.

Figure 3

In Millions of Dollars



FOOD STAMP PROGRAM (FSP)

173 Arrested, 213 Indicted, and 290 Convicted for Food Stamp Trafficking

OIG continues to spend a significant amount of its investigative time investigating fraud in the FSP. Following are cases where trafficking in food stamps has been uncovered.

- In Michigan, a joint Federal, State, and local effort led by OIG and the U.S. Secret Service culminated in the arrests of 57 persons. During this year-long investigation, undercover agents purchased approximately \$27,000 worth of food stamps, and

seized \$78,000 in cash, 38 firearms, drugs, and nearly \$179,000 in counterfeit U.S. currency.

- In Pennsylvania, 14 individuals were charged in Federal court with exchanging food stamps for cash, illegal drugs, and, on one occasion, a firearm. Among those charged were two retail store owners. All of the individuals either have agreed to plead guilty or are awaiting trial. In a second phase of the same food stamp operation, 16 individuals pled guilty in Federal or State court to selling food stamps for cash or illegal drugs. A 17th individual who fled prosecution was recently arrested in Arizona, extradited to Pennsylvania, and is now awaiting trial.

Over the past year, these Pennsylvania cases were worked with local law enforcement authorities.

- As a result of an investigation conducted jointly with local, State, and other Federal law enforcement agencies in the St. Louis, Missouri, area, 19 individuals were arrested on charges of food stamp trafficking and receiving stolen property. Most of those arrested purchased food stamps and other items they believed were stolen, while others only trafficked in food stamps. The investigation concluded with a "buy-bust," in which one of the individuals purchased stolen property and \$2,500 worth of food stamps for \$12,000 cash. After the "buy-bust," agents searched the property of eight authorized food stamp retailers. They recovered guns, drugs, counterfeit audio cassette tape recordings, and thousands of dollars worth of other stolen property. Local authorities also seized approximately \$100,000 in cash from safe deposit boxes owned by some of the individuals. Trials of the 19 are pending.
- In two separate cases in Arizona, OIG agents and local police arrested a total of seven individuals on charges related to food stamp trafficking. Also, the State seized a grocery store under the State's racketeering statute. Three of the individuals face State charges for exchanging food stamps for cash with an undercover OIG agent. Two individuals pled guilty to Federal charges for exchanging counterfeit food stamp identification cards, birth certificates, and insurance cards for food stamps, or for laundering the food stamps. Federal charges are pending against two others. During searches of the defendants' residences, OIG agents seized the equipment and paper used by the counterfeiters to



create the bogus documents, as well as paper and samples for counterfeiting U.S. currency.

- We reported previously that seven Washington, D.C., residents were arrested when they purchased \$49,000 worth of food stamps from undercover OIG agents. Two of the individuals have been sentenced to 5 years in Federal prison based on their guilty pleas of conspiracy to distribute cocaine. They traded approximately 300 grams of crack cocaine, a semiautomatic pistol, and over \$1,600 in cash for food stamps. They were indicted by a Federal grand jury on 27 counts of food stamp trafficking, distribution of crack cocaine, conspiracy, and distribution of a controlled substance within 1,000 feet of a school.
- The owners of a retail store in Colorado were both indicted for buying food stamps for 50 cents on the dollar. One of the owners was found guilty at trial and was sentenced to 30 months in prison. He was subsequently charged with trafficking in narcotics and pled guilty in Colorado State court. He was then sentenced to 12 years in prison for those offenses. The other owner pled guilty to two counts of food stamp trafficking and was sentenced to 1 month of home detention and mandatory enrollment in a drug treatment center. This store had moved into the same facility as another store whose owner was convicted of food stamp trafficking.
- In Alabama, two brothers, who owned a store, were sentenced to serve 27 months and 18 months in prison. They were also ordered to forfeit to the government their business, \$53,000 seized during their arrest, and the first \$26,000 from the sale of a home. The two brothers pled guilty to charges of unauthorized acquisition and possession of food stamps, money laundering, and conspiring to bribe an Internal Revenue Service (IRS) agent. In addition, three other individuals were arrested. One was charged with money laundering and the other two were charged with unauthorized acquisition and possession of food stamps. One entered into a pretrial diversion agreement and the other two were sentenced to 6 months' and 12 months' probation. The bribery charge against the two brothers resulted after one of the brothers was released to care for his elderly mother. He conspired with his incarcerated brother and another defendant to bribe an IRS special agent. In exchange for cash, the IRS agent was to return all the evidence seized during the investigation and permit the store owners access to their bank accounts and passports. The

store owner was rearrested and all three were indicted. This investigation was conducted jointly with the IRS.

- A New Jersey real estate broker was arrested and charged with food stamp trafficking for selling a house to an OIG undercover agent for \$30,000 in food stamps. The real estate broker, also the owner of a grocery store, purchased food stamps from the agent for cash and, on one occasion, offered to sell the agent the house for food stamps. The agent initially gave the broker a downpayment of \$1,000 in food stamps, and later gave him the remaining \$29,000 in food stamps, at which time the broker gave the agent the keys to the house and told him where to pick up the deed. Trial is pending.

Incomes of Federal Employees and Retirees Should Be Included in Routine State Computer Matching

In previous periods, we reported that Federal employees and retirees did not always report income accurately when applying for food stamps. We identified this reporting problem by conducting computer matches which compared wage records of Federal employees and retirees with State FSP recipient records. Regulations do not require matches to Federal wage data in the States' matching efforts. During this period, we completed audit work in 15 States, counties, and cities, including the District of Columbia.

Food stamps issued by these 15 agencies represented 35.2 percent of the FSP universe for June 1988. The audit matched the Social Security numbers of 5.5 million active and retired Federal employee records with 6.5 million State, county, or city FSP participant records. The computer match identified about 7,200 active and retired Federal employees participating in the FSP. Of these, about 2,800 appeared not to report all or a portion of their Federal income.

Our analysis of these cases disclosed that 807 were issued questionable benefits totaling over \$813,000 because either the recipients failed to report their income or State eligibility workers failed to apply the income correctly. The analysis also disclosed potential savings of over \$204,000 that could result from disqualifications from the FSP. These questionable benefits went undetected because wages of Federal employees and retirees were not included in State wage-matching efforts.

As a result of our audit work, referrals for criminal investigations were made for 123 of the intentional program violators who received questionable FSP

benefits totaling over \$279,000. Sixty-five referrals were the result of our computer matching in the Detroit, Michigan, area. So far, the U.S. attorney has filed criminal complaints against 23 present and former Federal employees, charging them with lying about their income to qualify for food stamp benefits. We anticipate that at least 25 more persons will be charged from the group.

We recommended that FNS identify a Federal information data base to verify Federal employee and retiree income, and encourage States to use this source to conduct matches between FSP and Federal wage data. In addition, we recommended that FNS coordinate with the Department of Health and Human Services and initiate legislative change to ensure that State wage-matching efforts include wages for Federal employees.

FNS agreed to take action and work with the States to achieve improvements.

Inadequate Controls Over Application Processing, Certifications, and Claims Actions Result in About \$8 Million in Questionable Issuances

Controls over application processing and certification in one large county did not ensure that food stamp benefits were made to eligible recipients. We found deficiencies involving application processing, casefile documentation, and income verifications. We statistically projected that 13,750 households were issued \$5.4 million in unsupported benefits. The county's internal review system was ineffective in preventing or detecting the errors. Supervisory and second-party reviews of certification actions were limited in the types and numbers of cases reviewed, and the minimum review standards were not met.

The county also applied the utility expense deduction incorrectly. The county allowed the standard utility allowance without having evidence that the household was billed for actual metered usage. Regulations allow a utility deduction only if the household's rent does not already include utility costs. County officials interpreted the regulations incorrectly to require verification only of actual utility expenses, not a standard allowance. We projected that 13,333 households were overissued \$2.4 million in benefits.

The county's referral and collection actions on potential and established claims were inadequate. Although 18 of the 200 households we reviewed had been suspected of receiving overissuances due primarily to unreported income, the county had made no claims referrals for 8 of the households. Food stamp officials had referred 10 of the cases for claims determinations;

claims totaling \$1,308 were established in 2 cases, claims actions were terminated in 3 cases, and reviews were still pending in 5 cases. Sixteen of the eighteen households continued to participate, and the county made little or no effort to establish claims determinations or collect overissuances. We projected that 6,667 households which received food stamps in December 1989 should have had claims determinations completed against them, and FNS should have recouped a potential \$159,600 monthly.

We recommended that the county review the cases cited in the report and establish claims, as appropriate. We also recommended that the county improve controls over certification, issuance, and claims activities. FNS officials generally agreed with the report's findings and recommendations.

SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN (WIC)

States Overclaim \$7.3 Million in WIC Administrative Costs

Over the past year, we have been reporting the results of our individual State audits of the appropriateness of administrative costs claimed by States for reimbursement under the WIC program. In 10 audits, we identified overclaims exceeding \$7.3 million. Inadequate monitoring procedures contributed to the problems, which included reimbursement for nonallowable salaries of employees, claims for improper costs, and charges for inappropriate expenses. We also identified additional annual savings of \$1.7 million because States would discontinue charging non-WIC employees' costs to the program.

The audits found the following significant cost deficiencies:

- Ten State agencies (SA) overclaimed about \$5.5 million for the costs of employees. The employees either performed no WIC duties or worked less time than charged to WIC.
- Eight SA's overclaimed \$1.2 million because of unallowable indirect costs.
- Four SA's overclaimed costs totaling \$242,000 for unliquidated obligations claimed as actual expenditures and out-of-period costs.
- Two SA's did not obtain prior FNS approval for purchases of goods and services totaling \$408,000.

Although the States are responsible for submitting accurate and timely claims to FNS, we believe that

stronger FNS monitoring of the reimbursement process will help prevent future overcharges. As of March 1991, FNS officials advised us that they sustained approximately \$6.5 million of the \$7.3 million in potential overcharges. Of the billings issued, about \$2 million was collected. The remaining claims are either pending collection or under negotiations with the States according to administrative procedures.

In the nationwide report, we recommended that FNS (1) implement systems to analyze the results of all reviews to identify areas with recurring or nationwide deficiencies, and target future reviews to address these vulnerabilities, (2) perform comprehensive reviews of SA's and ensure that effective corrective actions are taken on identified deficiencies, and (3) request that State and local agencies have non-Federal audits emphasize the cost deficiencies identified by this audit during the next audit cycle.

FNS officials agreed with the audit recommendations. They stated that, as resources permit, regional offices would perform management reviews targeted to administrative costs. In addition, they would provide further guidance and direction to their regional offices and SA's concerning the issues we identified during our audit.

CHILD NUTRITION PROGRAMS

Two School Districts Overclaimed in Excess of \$749,000 Due to Inadequate Meal Accountability Procedures

- We reviewed the reimbursement claims for meals served by a large school district that received over \$14.9 million in Federal reimbursement during the 1988-89 school year. We found that the monthly claims by 56 of the 129 schools included over 50,000 more free and reduced-price lunches than the schools could support by the number of approved applications on file. These claims resulted in excessive reimbursements totaling over \$70,000.

Our visits to 27 schools also disclosed that 18 could not support reimbursements totaling about \$246,000 for free and reduced-price meals served. The schools did not maintain files to support the eligibility determinations made for students authorized to receive these meals.

We recommended that FNS recover the excessive and unsupported reimbursements. In addition, we recommended that the SA require the district to establish review procedures to ensure that reimbursement claims do not exceed the number of free and reduced-price lunch applications.

The SA and the district are reviewing the reported overclaims before agreeing to any repayment. They stated that controls and procedures were implemented to prevent the reported findings from recurring.

- At another district, we found that wages and fringe benefits for nonfood service personnel were charged to the school lunch and breakfast programs improperly. In addition, the district made expenditures without having supporting documentation and transferred cash from its food service fund to its athletic programs account. Our audit questioned about \$433,000 in costs. FNS agreed to work with the SA to ensure that all funds diverted from the food service are returned and that the administrative recommendations are implemented.

FOOD DISTRIBUTION PROGRAM

Food Processor Fails to Credit States for \$840,000 in USDA-Donated Commodities

Under agreements with FNS, participating State and local agencies contract with commercial food processors to convert donated commodities into end

products, which are made available to schools, charitable institutions, and other eligible organizations. We audited a food processor with 231 contracts in 24 States and found that it had not credited the State and local agencies for \$737,000 worth of broth and fat by-products which it had processed from poultry donated by USDA. The processor had sold the broth and fat by-products to commercial vendors and kept the proceeds. The processor also had not credited State and local agencies for \$103,000 for the value of donated poultry lost or salvaged during production operations. FNS has agreed to recover the \$840,000 from the food processor.

CHILD AND ADULT CARE FOOD PROGRAM

Day Care Worker Embezzles Over \$20,000 from USDA

A former employee of a New York City day care center was arrested and pled guilty to embezzling in excess of \$20,000 from FNS. The investigation found that, over a 10-month period, the former employee altered the names of the payees on checks and inserted her own name or forged signatures of board members authorized to sign the checks. Sentencing is pending.

MARKETING AND INSPECTION SERVICES

AGRICULTURAL MARKETING SERVICE (AMS)

Inadequate Dairy Grading and Inspection Controls Result in Misgraded Butter

AMS' Dairy Division performs plant inspections and product grading at the request of dairy manufacturers and the CCC. The grading service is designed to ensure that products meet U.S. standards for flavor and other characteristics. The grading of a manufacturing plant's dairy products, for sale to CCC or distribution to commercial channels, can only occur after a plant meets sanitary requirements.

We conducted a review to determine whether dairy products graded by USDA met applicable U.S. standards for quality and whether dairy plants producing these products were operating under sanitary conditions. We selected butter as the prime dairy product for review because CCC purchased about \$565 million worth of butter in FY 1989. Because of the expertise required to grade butter, we obtained the services of a private consultant to provide an independent grading analysis of butter samples previously graded by AMS.

Our audit found that AMS graders did not always grade butter accurately. A grading analysis performed by our consultant on 30 CCC butter samples revealed that AMS overgraded 13 of them. The same analysis performed on 18 samples selected from retail outlets found that 11 were lower in quality than stated on the containers. During its past compliance reviews, AMS' Review and Evaluation (R&E) staff had reported the same types of problems we found. (One R&E report indicated that the grader was incorrect almost 80 percent of the time.) The problems occurred because

(1) graders were insufficiently trained and supervised, largely because of budget constraints, (2) procedures to select the USDA samples were ineffective, and (3) butter samples were graded while an initial "cooked" flavor, which can mask undesirable flavors, was still present.

We visited 25 dairy plants accompanied by an AMS inspector. Our visits disclosed that 8 were operating under unsanitary conditions serious enough to make them ineligible for USDA grading services. Examples of the unsanitary conditions we noted included mold on the ceilings and walls of the processing areas and rodents in the processing areas. In addition, our review of AMS records disclosed that (1) dairy plants were not effectively penalized when they failed to correct recurring unsanitary conditions, (2) plant status ratings were not assigned consistently and uniformly, (3) plant inspections were scheduled in such a manner that dairy plant officials could anticipate them, and (4) regulatory agencies were not informed promptly of severe unsanitary conditions.

We recommended that AMS provide more supervision and training to its graders and strengthen its monitoring of the grading process. We also recommended that AMS develop better inspection procedures to ensure that sanitation deficiencies at inspected plants are detected, and that specific penalties be assessed against plants which repeatedly violate sanitation requirements.

We recommended that ASCS work with AMS to develop policies and procedures to regrade butter stored by CCC, and that ASCS require butter manufacturers to repurchase any CCC butter found, after regrading, to be less than specified in the CCC contract.

AMS officials agreed to take actions to correct the problems noted in our review. ASCS officials advised that corrective actions have been taken, including the rejection of butter that regrades at a lower than acceptable level.

AMS Employee Resigns After Obtaining Government Funds Fraudulently

An AMS employee pled guilty to fraudulently obtaining overtime pay, traveler's checks, and other Government funds by submitting false or fictitious documents to AMS and the National Finance Center. The employee was charged with 11 counts of making false claims,



theft of Government money, and wire fraud. The employee received approximately \$6,300 in unauthorized overtime pay, traveler's checks, and Government credit card charges. She resigned from AMS as a result of this investigation. Sentencing is pending.

ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)

Bird Smuggling Investigations Reduce the Threat of Foreign Disease

We continue to give high priority to investigating allegations, such as the smuggling of animals or plants, which could impact the health of the public and endanger the nation's food supply through exposure to disease or plant pests. Following are examples of investigative results in this area during the past 6 months.

- A pet store owner in New Jersey was arrested and charged with the receipt of exotic birds, imported in violation of U.S. Customs Service law. The pet store owner negotiated for and purchased psittacine birds which he received from an OIG undercover agent. The pet store owner pled guilty to one count of bird smuggling and is scheduled to be sentenced in the near future.
- Two men indicted for participating in an international parrot smuggling scheme have pled guilty in Federal district court in San Diego, California. As previously reported, the two men, one in California and one in New York, smuggled hundreds of parrots into the country, which were then distributed in New York and New Jersey. Sentencing is pending.
- In San Diego, two men who were indicted last year for their roles in an international bird smuggling operation pled guilty to quarantine violations and smuggling. The men illegally imported and distributed a variety of exotic birds, including Amazon parrots and macaws. Sentencing is pending.

FOOD SAFETY AND INSPECTION SERVICE (FSIS)

Meat Company and Officers Fined for Selling Adulterated Meat Products

Legal action has been completed against a meat-processing company in Missouri and two of its officers. The company and the individuals pled guilty to processing and selling ground beef and Italian sausage adulterated with sodium sulfite. The company was fined \$12,000. The individuals were fined a total of \$8,000 and placed on 3 years' probation. The company president agreed never to apply to operate a federally inspected meat facility in the future. The company had previously pled guilty to selling uninspected meat in 1987 and was fined \$10,000 (of which \$9,000 was suspended) and placed on 3 years' probation. As a result of this investigation, however, the probation was revoked and the company was ordered to pay the remaining \$9,000. This investigation was conducted jointly with FSIS compliance officers.

Guilty Plea in Product-Tampering Case

A New Jersey man reported to the local police that he had been injured by a razor blade concealed in a hot dog he had been eating. Two additional packs of hot dogs with razor blades embedded in them were found at the same store where the first hot dogs were purchased. During the OIG investigation of the tampering incident, the man admitted that he placed the razor blades in the hot dogs. He was subsequently indicted by a grand jury and pled guilty to tampering with consumer products. The man was sentenced to 2 years and 3 months in prison.

FINANCIAL, ADMINISTRATIVE, AND AUTOMATED DATA PROCESSING SYSTEMS

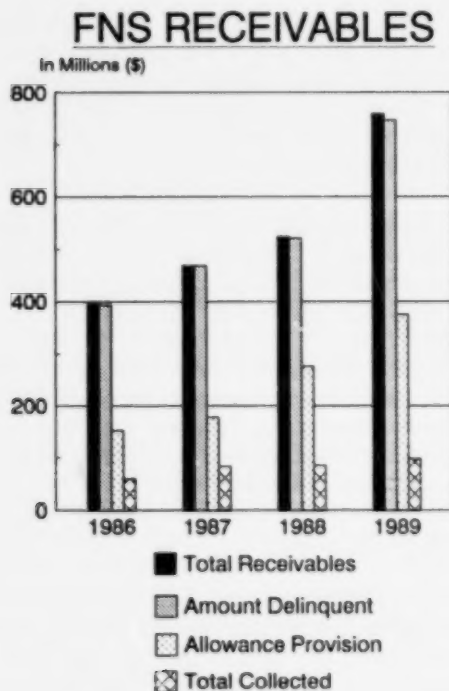
USDA places a high priority on improving accountability and management control over its resources. Managers continue to focus on improving debt and cash management activities, strengthening internal controls over departmental programs, and increasing security and control over automated data processing and financial systems. Our audits identified areas where managers can make improvements.

FINANCIAL MANAGEMENT

Improvements Needed in the Management and Collection of Debts Owed to FNS

We reviewed FNS' management of debts due from non-Federal debtors, and its implementation of collection initiatives established by the Office of Management and Budget (OMB) and the U.S. Department of the Treasury (Treasury). Figure 4 shows the substantial increase in debts owed to FNS since 1986. As of September 30, 1989, as shown in figure 4, FNS reported that debtors owed it about \$760 million. More than \$747 million (98.3 percent) was delinquent. FNS carries the value of these debts at \$384 million, having set aside \$376 million as an allowance provision for losses.

Figure 4



FNS had not implemented all OMB and Treasury standards concerning debt management and collection. Our review identified the need for improvements in the following areas:

- **Debt Management.** Because FNS had not implemented specific procedures for recording, managing, and reporting debts owed to it, its Report on Accounts and Loans Receivable contained material misstatements. Specifically, debts were understated by \$332 million because of unrecorded claims, the payment status and age of past-due accounts were reported incorrectly for the \$615 million in claims against food stamp households, and the allowance for uncollectible debts was understated by as much as \$88.5 million. Other misstatements included a \$45.7 million overstatement of debts referred to the Office of the General Counsel (OGC), and a \$15.5 million understatement of writeoffs.
 - **Debt Collection.** FNS can do more to collect delinquent debts by implementing collection initiatives required by OMB and Treasury. Figure 4 shows claim amounts have increased substantially since FY 1986, without corresponding increases in collections.
- FNS had not implemented procedures to offset Federal income tax refunds and Federal employee salaries, had not acted to ensure that States refer delinquent accounts to commercial collection agencies, and had not required States to screen food stamp applicants to identify claims collection opportunities. These collection techniques provide a cost-effective method of increasing collections.
- **Credit Bureau Reporting.** FNS did not require States to report delinquent food stamp household claims and commercial accounts to credit bureaus. These debts total over \$620 million. Credit bureau reporting encourages current debtors to avoid becoming delinquent and provides information to identify applicants for Federal contracts, grants, and loans who are delinquent on FNS debts.

We recommended FNS implement or revise procedures to report debt information properly, and to implement debt management and collection initiatives set forth by OMB and Treasury. In response, FNS stated it would pursue food stamp recipient claims to the extent legally permissible and cost effective, and that it would request OGC opinions on policy issues applicable to our recommendations. We continue to work with FNS on these recommendations.

FCIC Cash Management Practices Needed Strengthening

FCIC enters into reinsurance agreements with private insurance companies that sell and service policies under the crop insurance program. Under these agreements, FCIC assumes most of the risk and pays the losses on crop insurance policies written by the reinsured companies. FCIC received about \$721 million in premiums for the 1989 reinsurance year. FCIC also reimburses the reinsured companies for the administrative expenses of handling the crop insurance business based on a percentage of the premiums. FCIC paid about \$260 million to the reinsured companies for administrative expenses for the 1989 reinsurance year.

We reviewed FCIC operations over the flow of funds between FCIC and the reinsured companies, and over the reinsured companies' reporting of premiums and collections. We statistically selected 750 policies that 10 reinsured companies sold on 1988 crops.

We found that premiums and collections were not always promptly reported to FCIC. For example, we projected that \$23 million in premiums reinsured companies collected from insureds was not reported for at least 1 month after receipt. Since the start of the reinsurance program, FCIC has not required collection of premiums until near the end of the insurance period, while most commercial insurance companies make premiums due and payable at the beginning of the insurance period. We estimated FCIC could have reduced its borrowing costs by about \$3.5 million during 1989 if it had collected half of the premiums 60 days earlier in the insurance period or immediately after premiums were established for the policies. Also, funds placed in escrow accounts for the reinsured companies were not controlled adequately. We estimated that \$23 million in 1988 indemnity payments were funded through the escrow accounts before FCIC received details on the losses. FCIC uses an electronic fund transfer (EFT) system to transfer funds to the reinsured companies, but continues to allow the companies to mail their payments to FCIC. We calculated that over a 2 1/2-year period, EFT would

have saved FCIC about \$491,000 on about \$422.5 million in collections.

We believe modifications to the Standard Reinsurance Agreement (SRA) for 1991 will unduly increase reinsurance program costs. Provisions in the SRA could allow delay of reinsurance receipts by an additional 35 days, adding \$2.57 million in interest costs to FCIC, if the reinsurance program continues at the 1989 calendar year volume of business. We also noted that because of procedural flaws in interest calculations, FCIC had undercollected about \$343,000 in interest from two companies during 1989.

We recommended FCIC (1) establish a final cutoff date for reporting policies and recover any excessive program costs associated with inaccurate reporting, (2) study the benefits/costs of requiring insureds to pay 50 percent of the premium when the insurance becomes effective, (3) monitor escrow accounts and immediately recover any funds owed by wire transfer, (4) implement an EFT collection system to handle receipts from the reinsured companies, and (5) clarify terms in the 1992 SRA to ensure that interest is properly accrued and charged through the monthly accounting reports.

FCIC is considering the recommendations and the corrective actions.

Improved Monitoring of the Department's Cash Management Activities by OFM Could Save \$2.5 Million

The Deficit Reduction Act of 1984 requires the timely collection and deposit of funds owed to executive agencies. Departmental regulations designate the Office of Finance and Management (OFM) as the central point for cash management policy and reporting purposes within USDA.

Each USDA agency prepares a cash management action plan annually. The plans contain an inventory of cash receipt and disbursement activities, a description of each major cash management problem, a description of the actions needed to correct each problem, and a projection of the interest saving that each action will produce. Based on the cash management action plans, OFM and the Treasury develop recommendations and initiatives to improve cash management practices. As a result of FY 1989 initiatives, OFM officials stated that savings realized totaled about \$21 million.

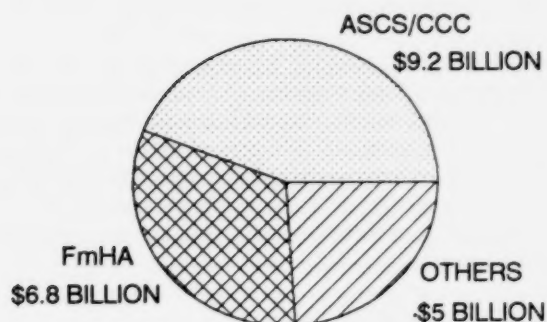
We reviewed OFM's oversight of the Department's cash management activities. We concentrated our review on USDA's two largest collection agencies, ASCS and FmHA. For FY 1989, ASCS collected about

\$9.2 billion and FmHA about \$6.8 billion of USDA's total \$21 billion in collections. Figure 5 shows a breakdown of USDA's FY 1989 collections.

Figure 5

USDA FY 89 COLLECTIONS

Total \$21 Billion



While USDA has accomplished much in terms of collections, our audit disclosed that OFM could improve its monitoring of cash management activities. ASCS and FmHA did not implement some of their cash management studies or perform the required reviews in a timely manner. In addition, ASCS did not prepare and submit to OFM an annual cash management action plan and did not always provide accurate collection data on cash management reports. Further, expenses for similar collection systems varied significantly between ASCS and FmHA. We identified savings totaling about \$2.5 million, in addition to the \$21 million, could have been realized if OFM had monitored the agencies' activities better to ensure the initiatives were implemented.

We recommended that OFM improve oversight of USDA agencies to ensure cash management initiatives are implemented in a timely manner. OFM officials disagreed that improved oversight of agency actions is necessary. Besides issuing guidance and assisting the agencies in developing cash management initiatives, we believe that OFM needs to take additional actions to ensure that the agencies implement the cash management initiatives.

Improper Accounting for \$23 Million in Section 32 Funds

Section 32 of Public Law 74-320 requires that 30 percent of U.S. Customs receipts be set aside each year to encourage both the export and domestic use of U.S. farm products. During FY 1990, the USDA share of Customs receipts totaled \$4.7 billion. In addition, contingency reserve funds are set aside each year to provide surplus commodities for emergency needs such as those caused by natural disasters. Unused contingency reserve funds may be carried forward to subsequent years.

We reviewed how AMS and ASCS accounted for Section 32 funds. We found that the accounting for Section 32 funds was inadequate, internal controls were weak, and reports on the use of the funds were inaccurate. ASCS commingled Section 32 funds with other appropriated funds for commodity purchases. The agencies did not perform periodic reconciliations of fund expenditures, obligations, and transfers. As a result, we identified about \$23 million of Section 32 funds that ASCS appeared not to have spent or returned to AMS for other uses, as required.

The agencies involved agreed with our recommendations to improve internal controls and tighten accounting procedures and responsibilities. Agency officials are performing a detailed review to reconcile their records.

AUTOMATED DATA PROCESSING SYSTEMS

Security Breaches of SCS and APHIS Computers Are Identified and Corrected

Unauthorized users successfully penetrated the multimillion-dollar computer systems of the Soil Conservation Service (SCS) and the Animal and Plant Health Inspection Service (APHIS). We conducted reviews to determine what weaknesses allowed these accesses and what the agencies had done to correct the weaknesses.

We concluded these systems were vulnerable to abuse on a networkwide basis, but that agency management and computer security personnel acted immediately to limit access to their computer systems. They also developed action plans to purge their networks of all unauthorized users and to strengthen computer access security procedures and awareness throughout the agencies. In addition to the agency actions, we identified other areas that needed better security. These included password management, system backup procedures, and systems administrator responsibilities. Agency management and computer

security personnel agreed to correct these additional security weaknesses.

Control and Security Problems Were Evident in FNS' Regional Office- Administered Payment (ROAP) System

State agencies are normally responsible for administering the different FNS Child Nutrition programs. However, for certain Child Nutrition programs, the States are either unwilling or unable to operate the programs because of State or local laws. In this situation, regional FNS offices replace the State agencies and operate these programs using the ROAP system. In FY 1989, the total obligations for the various nutrition programs under the ROAP system exceeded \$121 million.

Overall, we found the ROAP system effectively made payments to sponsors who participated in the Child Nutrition programs. Edits and controls in the automated system were functioning properly, but control weaknesses outside the system needed to be corrected. These weaknesses included inadequate separation of duties, failure to process program records adequately, and failure to document changes to data files. We also found that some FNS personnel continued to have access to ROAP data although they were no longer involved in the program and that FNS did not have formal software change procedures.

We recommended that FNS strengthen internal controls over access to ROAP data and over form processing, separate key functions among personnel, and document corrections to data files. We also recommended that FNS develop and implement formal procedures to control and document all changes to system software. Agency officials agreed with the audit findings and have taken actions to correct the internal control weaknesses.

PROCUREMENT ACTIVITIES

Controls Over Competitive Contracting Activities Need Improvement

The Kansas City Commodity Office (KCCO) in Kansas City, Missouri, has management responsibility for the commodities held by CCC. KCCO contracts with suppliers and processors for the acquisition, processing, and repacking of commodities. For FY's 1989 and 1990, KCCO established competitive contracts totaling about \$1.2 billion to purchase processed commodities. We reviewed KCCO's procedures for handling and awarding bids.

We found that controls over the sealed bid and bid modification process needed to be improved to

preserve the integrity of the process. Sealed bids and electronically transmitted bid modifications were exposed before the designated time of bid opening. Also, deadlines for receipt of bids and bid modifications were not strictly enforced. Bidders were allowed to modify bid prices after the designated bid deadline, which resulted in increased contract amounts of over \$50,000 and subjected the contract awards to possible irregularities.

Procedures to ensure that all contractors were eligible to receive a Government contract also needed improvement. KCCO awarded three contracts totaling \$1.2 million to a vendor who it later discovered was debarred from receiving Government contracts.

We recommended that KCCO strengthen its procedures to ensure all bids and bid modifications are protected from unauthorized disclosure, that bid receipt deadlines are enforced, and that contracting personnel match bidders against debarred contractor lists before awarding contracts. KCCO officials agreed with our recommendations and implemented corrective actions during the audit.

AUDITS OF CONTRACTS

OIG audits of contracts are performed to assist USDA procurement offices in the negotiation, administration, and settlement of USDA contracts and subcontracts. OIG performed or arranged for audits of 31 pricing proposals, cost reimbursement contracts, or contractor claims during this period. These audits resulted in questioned costs or potential savings of more than \$5.3 million. Also during this period, management decisions were made on 26 audits, resulting in savings of about \$4 million.

Unallowable or Unsupported Contract Costs

- Our audit of the costs claimed by Tufts University for the operation of USDA's Human Nutrition Center on Aging for FY 1985-89 questioned almost \$2.2 million. We questioned \$1.7 million of indirect costs charged by Tufts to various accounts because the claim included some ineligible items. We also questioned \$304,000 of investment income that Tufts did not credit to the contract, and \$158,000 of charges that Tufts collected but did not credit properly to the contract.
- An audit of an equitable adjustment claim filed with the Soil Conservation Service (SCS) for enlargement of a dam questioned the entire \$557,685 claimed by the contractor. The contractor could not provide adequate documentation to support the costs claimed. The contractor had

originally filed a claim totaling over \$1.1 million which a prior audit questioned due to inadequate support. Subsequently, the contractor hired a Certified Public Accounting (CPA) firm to construct the records, which resulted in a revised claim for \$557,685. The audit of the revised amount concluded that the contractor still did not have adequate documentation to support the costs claimed.

- An audit of an equitable adjustment claim filed with SCS questioned almost \$212,000 of the \$353,500 claimed by the contractor. The contractor submitted this claim for materials, labor, and equipment used to clean up and replace materials lost as a result of several floods. The audit questioned costs claimed for the use of equipment, supplies, overhead, and profit which were determined incorrectly or could not be supported by the contractor's records.
- A preaward audit of a cost proposal with the Agricultural Research Service questioned almost \$375,000 of over \$22.7 million of the contractor's proposed costs. The audit disclosed an error in the contractor's calculation of fringe benefits, a need for upward adjustments of anticipated costs for direct labor and workers' compensation expense, and a need to reduce anticipated costs for insurance and for general and administrative expenses.

The contracting officers will use the information developed by the above audits to negotiate costs with the contractor.

OVERSIGHT OF NON-FEDERAL AUDITORS

OIG monitors the work performed by non-Federal auditors for program agencies of the Department and takes appropriate steps to ensure that their work complies with the standards established by the Comptroller General. For the audits of 21 State and local governments where OIG has been assigned cognizance, we work closely with both the auditee and the independent auditors, meeting with them frequently to monitor the progress of the audit and to provide technical assistance. OIG reviews the audit work performed by non-Federal auditors to determine that it meets the requirements of OMB Circular A-128. Audits of State and Local Governments, and the standards promulgated by the Comptroller General. In addition, OIG participates in quality control reviews of State agencies administering major USDA programs when those reviews are led by other assigned cognizant Federal audit organizations.

In this reporting period, we issued 7 audit reports of which 5 contained 34 recommendations with

associated monetary values of about \$400,000 in questioned costs. We believe that the larger State and local government audits have become more effective each year and that accountability for Federal funds has improved. For example, one Statewide audit found a lack of documentation to support program expenditures. The unsupported costs totaled nearly \$400,000 for USDA programs and \$150 million for all Federal programs. We recommended that the State either repay the questioned costs or provide documentation to justify them. In another audit, the State auditor found that the State incorrectly allocated indirect costs to the Food Stamp Program. The State used a computer to allocate overhead charges, however, the audit found that data entry errors caused the charges to the program to be overstated by \$472,000. The audit recommended that the State correct the erroneous data and adjust the appropriate Federal expenditure reports to correct the overcharges. The State agreed to take these corrective actions.

In our prior Semiannual Report, we reported that because a State auditor had not adequately reviewed a State agency's indirect costs, the USDA program agency reduced the State agency's letter of credit by \$57,000, the approximate cost of the audit. In its current audit of the State agency for the year ended June 30, 1990, the State auditor reported reviewing the State agency's indirect cost proposals for the 4-year period ended December 1989. Based on the review, the State auditor questioned \$348,000 of costs. Also, the State auditor reported that the proposals contained building rental costs totaling about \$2.6 million for personnel in numerous divisions of the State agency and in one division which had no involvement with the administration of Federal grants. The State auditor reported that the amount of space rental costs which should not have been included in the proposals could not be determined.

We received and distributed 56 reports furnished to us by other Federal cognizant agencies which contained 194 recommendations with associated monetary values of about \$1.6 million. We also have general oversight responsibility for the quality of numerous reports prepared by non-Federal auditors pursuant to program requirements. These non-Federal audit reports are submitted directly to program managers. Our past reviews of the quality of work performed led to the referral of 17 CPA firms to State boards of accountancy for substandard work. To date, State boards have acted on all but one case. Sanctions have included requiring continuing education courses, censure, suspension, and fines. In addition, since USDA rules on debarring and suspending nonprocurement program participants went into effect, we have referred two cases to program officials for consideration of administrative action.

STATISTICAL DATA

Audits Without Management Decisions

The following audits did not have management decisions made within the 6-month limit imposed by Congress.

Agency	Date Issued	Title of Report	Total Dollar Value at Issuance	Amount With No Management Decision
Audits Pending Agency Action				
ASCS	5/17/89	1. Unauthorized Use of Farmers Home Administration (FmHA) Inventory Farm Property (50099-20-At) *	\$1,121,913	\$569,253
	7/20/89	2. Maximum Payment Limitation Provisions in Arkansas (003097-4-Te) *	\$2,867,614	\$2,867,614
	3/30/90	3. Pennsylvania State and County Office Administration (3001-47-Hy) *	\$626,387	\$205,338
	9/29/89	4. 1987 Common Payment Limitation Provisions (03600-1-Te) *	65,491,890	\$ -0-
	6/21/90	5. 1988 Livestock Feed Program in Texas (03600-11-Te)	\$587,512	\$466,972
	6/29/90	6. Internal Administrative Controls for Program Operations (03600-7-KC)	\$ -0-	\$ -0-
	8/8/90	7. Improved Controls and Oversight on Adverse Warehouse Cases (03091-19-FM)	\$11,257,400	\$6,343,200
	9/21/90	8. Texas Conservation Reserve Program (03099-146-Te)	\$1,509,666	\$1,509,666
FmHA	5/10/89	9. Business and Industrial Loan to Gulf Coast Wood Products (04099-149-Te) *	\$4,350,000	\$4,350,000

Agency	Date Issued	Title of Report	Total Dollar Value at Issuance	Amount With No Management Decision
	3/28/90	10. Texas State Office Business and Industrial Loan Program (04002-1-Te) ^a	\$4,899,161	\$4,899,161
	9/26/90	11. Intermediary Relending Program (04600-5-Te)	\$1,865,678	\$1,865,678
	9/28/90	12. Rural Rental Housing Program in Kentucky (04099-299-At)	\$1,936,819	\$1,786,677
FNS	9/26/90	13. New Jersey Wage Match (27019-41-Hy)	\$228,969	\$228,969
	9/26/90	14. New York City Wage Match (27019-40-Hy)	\$189,000	\$189,000
FS	9/4/90	15. Administration of Timber Sale Contract Defaults (08099-109-SF)	\$269,622	\$269,622
NASS	9/26/90	16. Review of Data Used to Determine Deficiency Payment Rates for Upland Cotton (26600-1-At)	\$187,100,000	\$187,100,000
OFM	6/25/90	17. Debarment and Suspension Activities in USDA (50099-22-At)	\$ -0-	\$ -0-

Audits Pending Action Outside the Department

FmHA	9/2/88	18. Business and Industrial Loan to Le Bossier Hotel (04099-135-Te) ^a	\$8,736,576	\$8,736,576
SCS	10/12/89	19. Incurred Cost Audit - Bil-Jim Construction Co. (16545-1-Hy) ^a	\$682,690	\$682,690

^a Reported in last Semiannual Report

1. ***Unauthorized Use of FmHA Inventory Farm Property, Issued May 17, 1989***

The audit identified 16 persons who operated FmHA inventory property and collected over \$569,000 in ASCS program payments without having a lease from FmHA. ASCS agreed to initiate collection actions and has recovered overpayments in 3 of the 16 cases. For the remaining cases, ASCS has not established claims or provided sufficient documentation on cases where recovery will not be made. We are continuing to work with the agency to obtain a management decision on the remaining cases.

2. ***Maximum Payment Limitation Provisions in Arkansas, Issued July 20, 1989***

ASCS has not provided a corrective plan for program violations and documentation that all claims have been established as recommended. We are continuing to work with the agency to obtain agreement.

3. ***Pennsylvania State and County Office Administration, Issued March 30, 1990***

ASCS has not provided an adequate response to one of the audit recommendations involving recovery of cited overclaims. We are continuing to work with the agency to obtain agreement.

4. ***1987 Common Payment Limitation Provisions, Issued September 29, 1989***

ASCS has not initiated corrective action to strengthen the yearend review process. We are continuing to work with the agency.

5. ***1988 Livestock Feed Program in Texas, Issued June 21, 1990***

Before completing the recommended corrective action, ASCS is awaiting the outcome of an investigation of five producers cited in the report.

6. ***Internal Administrative Controls for Program Operations, Issued June 29, 1990***

ASCS has not provided a corrective action plan and timeframes for five of the report's recommendations. We are continuing to work with the agency to develop an acceptable corrective action plan.

7. ***Improved Controls and Oversight on Adverse Warehouse Cases, Issued August 8, 1990***

ASCS has not yet initiated action on 10 of the 55 recommendations in the report. We are continuing to work with the agency to achieve a management decision on the audit.

8. ***Conservation Reserve Program in Texas, Issued September 21, 1990***

ASCS has not provided an acceptable response to the four recommendations in the report. We are continuing to work with the agency to develop an acceptable response.

9. ***Business and Industrial Loan to Gulf Coast Wood Products, Texas, Issued May 10, 1989***

The audit recommended that FmHA, upon receipt of the lender's loss claim, refer the violations of the lender's agreement to the Office of the General Counsel and request that the Office of the General Counsel determine the extent to which FmHA may enforce the loan guarantee. The lender has not yet filed an estimated or final loss report with FmHA. Accordingly, the agency can take no further action at this time.

10. ***Texas State Office Business and Industrial Loan Program, Issued March 28, 1990***

The audit recommended that FmHA conduct an assessment of each questioned loan in the audit to establish the monetary amounts of potential claims against lenders. FmHA will subsequently have to obtain the Office of the General Counsel's determination as to the extent to which FmHA may enforce the loan guarantee and recover losses covered by the guarantee. FmHA has agreed with the recommendations and its review is underway. Extensive case file analysis is involved in this process.

11. ***Intermediary Relending Program, Issued September 26, 1990***

The audit recommended that FmHA determine if six loans totaling over \$700,000 should be accelerated. FmHA has directed the State offices to obtain additional information from the intermediaries and provide it to the national office for review and determination before issuing demand letters.

12. Rural Rental Housing Program in Kentucky, Issued September 28, 1990

The audit recommended that the State office recover excess loans identified by the audit. The State office obtained additional information from the borrowers to determine the eligibility of various costs incurred by the borrower. This process is extensive and continuing.

13. New Jersey Wage Match, Issued September 26, 1990

The audit identified cases where income was either not reported by recipients or not used properly by eligibility workers to determine food stamp benefits. We also identified some recipients who participated in two cases simultaneously. The State agency is performing administrative actions to complete all required followup work which could not be completed within the 6-month timeframe.

14. New York City Wage Match, Issued September 26, 1990

The audit identified cases where income was either not reported by recipients or not used properly by eligibility workers to determine food stamp benefits. The State agency is performing administrative actions to complete all required followup work which could not be completed within the 6-month timeframe.

15. Administration of Timber Sale Contract Defaults, Issued September 4, 1990

Management decision has not been reached on several recommendations which are contingent upon decisions by the Comptroller General or the Office of the General Counsel. These decisions have been requested by the FS but have not yet been received. Accordingly, the agency can take no further action at this time. One additional recommendation deals with a review of 143 delinquent claims to determine if collection action should be suspended or terminated. Of these, all but 25 have been completed.

16. Review of Data Used to Determine Deficiency Payment Rates for Upland Cotton, Issued September 26, 1990

In computing the average market price used by ASCS to determine deficiency payment rates, NASS allows cooperatives to deduct substantial costs that are ordinarily incurred by producers prior to sale. These deductions conflict with NASS

instructions and understate the average price received by producers. Also, NASS does not consider price support benefits received from ASCS marketing loan programs. ASCS' use of the average price computed by NASS results in overstated deficiency payments. We are working with ASCS and NASS to resolve the treatment of ordinary producer costs and marketing loan price support benefits in the determination of the average market price.

17. Debarment and Suspension Activities in USDA, Issued June 25, 1990

The Department is reexamining the statutory basis for excluding entire agencies, programs, and agreements from the governmentwide nonprocurement debarment and suspension requirements.

18. Business and Industrial Loan to Le Bossier Hotel, Louisiana, Issued September 2, 1988

The audit recommended that FmHA refer to the Office of the General Counsel the violations of the lender's agreement and request the Office of the General Counsel determine the extent to which FmHA may enforce the loan guarantee and recover losses covered by the guarantee. The Office of the General Counsel completed its review and referred the case to the Department of Justice for concurrence before initiating litigation. A determination has not yet been received from the Department of Justice.

19. Incurred Cost Audit - Bil-Jim Construction Company, Issued October 12, 1989

The contract claim is in litigation.

Indictments and Convictions

Between October 1, 1990, and March 31, 1991, OIG completed 710 investigations. We referred 431 cases to Federal, State, and local prosecutors for their prosecutive decisions.

During the reporting period, our investigations led to 334 indictments and 409 convictions. Fines, recoveries/collections, and restitutions resulting from our investigations totaled about \$5.3 million. Costs of about \$.8 million were avoided.

The following is a breakdown, by agency, of indictments and convictions for the reporting period.

October 1, 1990 - March 31, 1991

Agency	Indictments	Convictions ^a
AMS	2	2
APHIS	2	4
ARS	0	1
ASCS	20	17
FAS	18	2
FCIC	4	3
FmHA	43	34
FNS	236	340
FS	2	0
FSIS	6	5
OCA	1	0
OFM	0	1
Totals	334	409

^a This category includes Pretrial Diversions

Hotline Complaints

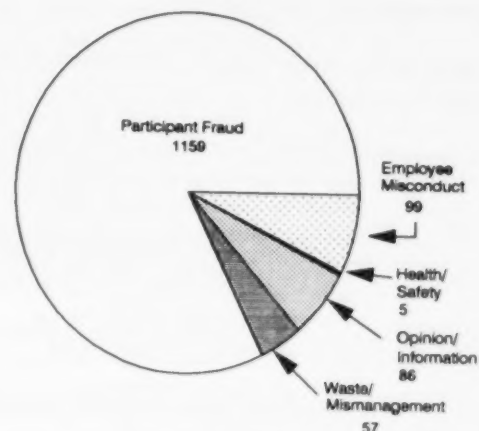
The OIG Hotline serves as a national receiving point for reports, by both departmental employees and the general public, of suspected incidents of fraud, waste, and abuse in USDA programs and operations. During this reporting period, the OIG Hotline received and analyzed 1,406 complaints. We investigated or audited 126 of these complaints. We referred 1,023 complaints to the administering USDA agency for resolution and response to OIG. Of the remainder, we provided 195 complaints to the responsible USDA agency for information (no response to OIG was requested), while 27 contained insufficient information to take any action.

The 24-hour, toll-free telephone number continues to be the major source for receipt of Hotline complaints. The majority of complaints are allegations of participant fraud in USDA's programs. Figure 6 shows a breakdown of the various types of allegations for this reporting period.

Figure 6

HOTLINE COMPLAINTS

October 1, 1990 to March 31, 1991
(Total Cases = 1,406)



Freedom of Information Act Activities

OIG processed 234 requests under the Freedom of Information Act (FOIA) compared with 263 for the previous 6 months. The following presents FOIA data for this and the previous reporting period.

	This Period
Number of Requests	204
Number of Favorable Responses	90
Number of Unfavorable Responses	144
Unfavorable Responses Due to:	
No Records Available	35
Requests Denied in Full	29
Requests Denied in Part	80
Totals	144
Other Data Not Affected Directly by the Requests:	
Appeals Granted	0
Appeals Denied in Full	3
Appeals Denied in Part	0
Number of OIG Reports Released in Response to Requests	260

NOTE: A request can require more than one report in response.

**INVENTORY OF AUDIT REPORTS RELEASED
WITH QUESTIONED COSTS AND LOAN**

	NUMBER	DOLLAR VALUES	
		QUESTIONED COSTS AND LOANS	UNSUPPORTED ^a COSTS AND LOANS
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 1989	63	\$134,076,654	\$14,423,248
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	62	\$ 82,026,637	\$10,801,611
TOTALS	125	\$216,103,291	\$25,224,859
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS PERIOD	70		
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$ 20,221,480	\$ 327,086
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$ 90,167,250	\$ 1,353,583
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	55	\$105,798,596	\$23,591,387
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	13	\$ 25,118,288	\$13,553,648

^a Unsupported values are also included in questioned values.

**INVENTORY OF AUDIT REPORTS RELEASED
WITH RECOMMENDATIONS THAT FUNDS BE PUT TO BETTER USE**

	NUMBER	DOLLAR VALUES
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 1989	25	\$372,115,884
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	<u>32</u>	<u>\$902,515,819</u>
TOTALS	57	\$1,274,631,703
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS PERIOD	24	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$248,810,952
- BASED ON PROPOSED MANAGEMENT ACTION		\$248,810,952
- BASED ON PROPOSED LEGISLATIVE ACTION		
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$17,903,388
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	32	\$219,349,134
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	5	\$191,853,569

**INVENTORY OF AUDIT REPORTS RELEASED
WITH IMPROPER AGENCY ACTIONS**

	NUMBER	DOLLAR VALUES ^a
A. FOR WHICH NO MANAGEMENT DECISION HAD BEEN MADE BY OCTOBER 1, 1989	12	\$265,244,999
B. WHICH WERE ISSUED DURING THIS REPORTING PERIOD	<u>6</u>	<u>\$10,754,293</u>
TOTALS	18	\$275,999,292
C. FOR WHICH A MANAGEMENT DECISION WAS MADE DURING THIS PERIOD	11	
(1) DOLLAR VALUE OF DISALLOWED COSTS		\$200,224,325
(2) DOLLAR VALUE OF COSTS NOT DISALLOWED		\$ 3,887,842
D. FOR WHICH NO MANAGEMENT DECISION HAS BEEN MADE BY THE END OF THIS REPORTING PERIOD	8	\$916,383,925
REPORTS FOR WHICH NO MANAGEMENT DECISION WAS MADE WITHIN 6 MONTHS OF ISSUANCE	1	\$61,132,832

^aNot intended for collection

**SUMMARY OF AUDIT REPORTS RELEASED
BETWEEN OCTOBER 1, 1990 AND MARCH 31, 1991**

DURING THE 6-MONTH PERIOD BETWEEN OCTOBER 1, 1990 AND MARCH 31, 1991, THE OFFICE OF INSPECTOR GENERAL ISSUED 168 AUDIT REPORTS, INCLUDING 27 PERFORMED UNDER CONTRACT BY CERTIFIED PUBLIC ACCOUNTANTS.

THE FOLLOWING IS A SUMMARY OF THOSE AUDITS BY AGENCY:

AGENCY	AUDITS RELEASED	QUESTIONED COSTS AND LOANS	UNSUPPORTED * COSTS AND LOANS	FUNDS BE PUT TO BETTER USE	IMPROPER AGENCY ACTION
AGRICULTURAL MARKETING SERVICE	2				
AGRICULTURAL RESEARCH SERVICE	19	\$2,238,319		\$2,204,016	
AG. STAB. & CONS. SERVICES	8	\$455,662		\$1,565,633	\$5,750,000
FARMERS HOME ADMINISTRATION	34	\$9,911,456	\$8,091,957	\$7,589,317	\$444,527
FEDERAL CROP INSURANCE CORP	4	\$217,636		\$7,350,205	\$4,477,159
EXTENSION SERVICE	1	\$157,515	\$60,756		
FOREIGN AGRICULTURAL SERVICE	4	\$63,885,638		\$6,219,645	
FOREST SERVICE	5	\$56,020		\$51,833	\$82,607
RURAL ELECTRIFICATION ADMIN.	2	\$16,200		\$844,760,600	
SOIL CONSERVATION SERVICE	5			\$769,411	
OFFICE OF OPERATIONS	1				
FOOD AND NUTRITION SERVICE	17	\$3,091,012	\$1,271,477	\$8,128,973	
MULTI-AGENCY/DIVISION CODE	66	\$1,997,179	\$1,377,421	\$23,876,186	
TOTALS	168	\$82,026,637	\$10,801,611	\$902,515,819	\$10,754,293
 TOTAL COMPLETED:					
SINGLE AGENCY AUDIT	102				
MULTIAGENCY	66				
 TOTAL RELEASED NATIONWIDE	168				
 TOTAL AUDITS PERFORMED BY OTHERS ^b	27				
 TOTAL SINGLE AUDITS ISSUED ^c	63				

* Unsupported values are included in questioned values.

^b Indicates audits performed by others, excluding Single Audits.

^c Indicates audits completed as Single Audits.

**AUDIT REPORTS RELEASED AND ASSOCIATED VALUES
BETWEEN OCTOBER 1, 1990 AND MARCH 31, 1991**

AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE	IMPROPER AGENCY ACTION
AGENCY - AGRICULTURAL MARKETING SERVICE						
01-061-0012-CH 91/03/29	DAIRY GRADING AND INSPECTION ACTIVITIES					
01-099-0053-SF 91/03/08	NECTARINE, PEACHES, PEARS, AND PLUMS MARKETING ORDER REFERENDA FRESNO, CA					
TOTAL: AGRICULTURAL MARKETING SERVICE		2				
AGENCY - AGRICULTURAL RESEARCH SERVICE						
02-545-0007-SF 91/03/28	PRICE PROPOSAL/ACCOUNTING SYSTEM REVIEW - NIIHAU HELICOPTERS, MAKAWELI, HI					
02-545-0007-TE 90/11/21	RATE REVIEW OF PROPOSED FY 91 RATES, CONTRACT NO. 53-3K06-B-30, LOCKHEED ENG. & SCIENCES CO					
02-545-0008-TE 91/03/01	CLAIM UNDER CONTRACT 50-3K15-5-1801, DIAMOND ELECTRIC, INC., BATON ROUGE, LA				\$78,647	
02-545-0009-AT 91/01/16	DCAA AUDIT OF PROPOSED RATES AND BURDENS FOR WOLFRERG-ALVEREZ CORP., SOL. NO. 9045-3K15-90					
02-545-0010-AT 91/03/21	PREAWARD AUDIT OF: MASON & HANGER, INC., NRRC, PEORIA, IL, SOL. # 26-3K06-90					
02-545-0011-AT 91/03/08	PREAWARD AUDIT OF JONES OPERATIONS & MAINT. PLUM ISLE ANIMAL DISEASE CNTR. SOL 23-3K06-90					
02-545-0013-AT 91/03/08	PREAWARD AUDIT OF JONES OPERATION & MAINT. NORTHERN REG. RESEARCH CNTR., SOL 26-3K06-90					
02-545-0033-HY 91/03/29	AUDIT OF INCURRED COSTS OF ARS CONTRACT WITH TUFTS UNIVERSITY FOR FY 1985-89		\$2,238,319			
02-545-0038-HY 90/11/20	PREAWARD AUDIT-BURNS AND ROE CORP.					
02-545-0039-HY 90/11/15	PREAWARD AUDIT-DYNACORP				\$374,788	
02-545-0040-HY 91/01/18	RSO HAZARD WASTE DISPOSAL PREAWARD				\$18,893	
02-545-0042-HY 90/12/29	PREAWARD AUDIT-FACILITIES MANAGEMENT					
02-545-0044-HY 91/01/29	PREAWARD AUDIT-BENDIX					
02-545-0045-HY 91/02/06	PREAWARD AUDIT-BIONETICS CORPORATION					
02-545-0047-HY 91/03/15	PREAWARD AUDIT-JEWELL CLEANING SERVICES				\$392,530	
02-545-0049-HY 91/03/13	PREAWARD AUDIT-SCRUPLES JANITORIAL SERVICES, INC.				\$1,164,375	
02-545-0051-HY 91/03/15	PREAWARD AUDIT-BIOSPHERICS, INC					
02-545-0052-HY 91/03/18	ACCOUNTING SYSTEM REVIEW-BOYD ENTERPRISES					
02-545-0053-HY 91/03/25	PREAWARD AUDIT-DDD COMPANY				\$174,783	
TOTAL: AGRICULTURAL RESEARCH SERVICE		19	\$2,238,319		\$2,204,016	
AGENCY - AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE						
03-097-0001-CH 90/10/19	WISCONSIN - ASCS STATE OFFICE CONFERENCE AND TRAINING FEES		\$16,479			
03-099-0029-FM 91/03/01	EVALUATION OF THE ADMINISTRATION OF ASCS/CCC CONTRACTING AND PROCUREMENT ACTIVITIES					\$1,250,000
03-099-0059-SF 90/11/27	CRP ELIGIBILITY AND PAYMENT LIMITATION		\$433,320		\$1,011,080	
03-099-0136-AT 91/03/27	FEDERALLY LICENSED WAREHOUSES					\$4,500,000

**AUDIT REPORTS RELEASED AND ASSOCIATED VALUES
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AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE	IMPROPER AGENCY ACTION
03-099-0154-KC 90/11/30	COMMODITY LOAN SETTLEMENTS		\$1,262			
03-099-0158-KC 90/10/26	CONSERVATION RESERVE PROGRAM-ELIGIBILITY AND PAYMENT FOR TWO COLORADO PRODUCERS		\$4,601		\$465,489	
03-600-0007-CH 90/12/28	1989 PAYMENT LIMITATIONS OPERATIONS - IL					
03-600-0009-SF 91/03/08	1989 PAYMENT LIMITATION CASES IN KINGS COUNTY, CA				\$89,064	
TOTAL: AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE		8	\$455,662		\$1,565,633	\$5,750,000
AGENCY - FARMERS HOME ADMINISTRATION						
04-001-0036-HY 91/03/08	ADMINISTRATION AND MANAGEMENT OF STATE OPERATIONS- WV		\$53,851			
04-011-0244-HY 90/10/19	AUDIT OF BINGHAMTON FMHA COUNTY OFFICE		\$204			
04-011-0245-HY 90/12/05	AUDIT OF NEWARK, NY FMHA COUNTY OFFICE		\$8,316			
04-099-0079-FM 91/03/29	ACCOUNTABILITY OF SERVICING AGENTS FOR RH LOANS		\$626,000			
04-099-0105-KC 90/10/12	SURVEY OF DEBT RESTRUCTURING IN MO		\$36,697	\$36,697		
04-099-0109-KC 91/01/24	SERVICING OF RURAL RENTAL HOUSING IN WY		\$85,222	\$62,161	\$4,586	
04-099-0110-KC 90/11/20	BUSINESS AND INDUSTRIAL LOAN IN IA		\$44,456		\$305,712	
04-099-0111-KC 90/10/22	SERVICING OF RURAL RENTAL HOUSING IN IA		\$324,128	\$263,082	\$122,946	
04-099-0113-KC 91/03/29	INDIAN TRIBAL LAND ACQUISITION PROGRAM		\$5,485,978	\$5,351,116		
04-099-0115-KC 91/01/15	RURAL RENTAL HOUSING PROJECTS IN POLSON, MT - FMHA STATE OFFICE		\$836,256	\$744,000		
04-099-0116-KC 91/03/04	ONE RRH BORROWER'S MANAGEMENT OF SIX PROJECTS - MONTANA FMHA STATE OFFICE		\$109,053	\$109,053	\$127,175	
04-099-0118-KC 90/11/30	ONE RRH BORROWER'S MANAGEMENT OF FOUR PROJECTS - WYOMING FMHA STATE OFFICE		\$356,683	\$356,683	\$56,680	
04-099-0157-TE 90/10/26	HOUSING PRESERVATION GRANT TO COLONIAS ECONOMIC DEVELOPMENT, INC., PHARR, TX		\$413			
04-099-0159-TE 91/03/08	FMHA B&I GUARANTEED LOAN FOR INTOX LABS, INC. PINE BLUFF, AR		\$626,669	\$625,086		
04-099-0302-AT 90/11/29	LIQUIDATION OF B&I LOAN - RINGOLD, GA		\$83,241			
04-099-0306-AT 91/01/09	LIQUIDATION OF B&I LOAN, DALTON, GA		\$28,233			
04-099-0307-AT 91/01/23	CALL CONTRACT FOR B&I LOAN SERVICING WASHINGTON, D.C.		\$37,902	\$37,902		\$6,627
04-099-0308-AT 91/02/27	LIQUIDATION OF B&I LOAN, CAIRO, GA		\$139,950			
04-545-0001-AT 90/10/22	CONTRACT CLOSEOUT - NC					
04-545-0029-HY 90/10/17	NCAL RESEARCH, INC. CLOSE-OUT AUDIT		\$8,820			
04-545-0030-HY 91/02/05	INCURRED COST AUDIT-CTAA				\$786	
04-600-0002-HY 90/10/04	PA RURAL RENTAL HOUSING PROGRAM- PROJECT OPERATIONS					
04-600-0004-TE 91/02/19	RURAL RENTAL HOUSING PROGRAM - PROJECT OPERATIONS IN TX				\$545,908	
04-600-0005-SF 90/10/19	RURAL RENTAL HOUSING PROGRAM - PROJECT OPERATIONS IN CA					
04-600-0006-TE 90/12/20	NONPROFIT NATIONAL CORPORATION LOAN AND GRANT PROGRAM		\$979,600	\$502,600	\$1,891,068	

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04-600-0008-CH 91/03/19	MANAGEMENT OF RRH AND RH PROGRAMS				\$4,444,815	
04-600-0013-AT 91/03/27	ADMINISTRATIVE APPEALS		\$3,577	\$3,577		\$437,900
04-600-0013-CH 91/03/22	RURAL RENTAL HOUSING PROGRAM PROJECT OPERATIONS IN OH				\$89,641	
04-600-0014-AT 90/12/13	RURAL RENTAL HOUSING PROGRAM - PROJECT OPERATIONS - NC					
04-674-0001-SF 91/03/11	DEBT RESTRUCTURING DECISION, BORROWER 7MI-01, HILLSDALE, MI					
04-674-0003-SF 91/02/26	DEBT RESTRUCTURING DECISION, BORROWER 7AR-01, WHITE COUNTY, AR					
04-674-0007-SF 91/02/20	DEBT RESTRUCTURING DECISION, BORROWER 7AR-02 LONOKE COUNTY, AR					
04-675-0002-SF 91/01/02	DEBT RESTRUCTURING DECISION, BORROWER 9WA-01, DOUGLAS COUNTY, WA		\$36,207			
04-675-0003-SF 91/02/26	DEBT RESTRUCTURING DECISION, BORROWERS 9MT-01, RICHLAND, MT					
TOTAL: FARMERS HOME ADMINISTRATION		34	\$9,911,456	\$8,091,957	\$7,589,317	\$444,527
AGENCY - FEDERAL CROP INSURANCE CORPORATION						
05-002-0001-TE 91/01/18	DEBT MANAGEMENT: THE APPEALS PROCESSES		\$95,048			\$4,477,159
05-099-0039-FM 91/03/21	CASH MANAGEMENT PRACTICES WITH REINSURED COMPANIES PHASE II				\$6,939,000	
05-099-0051-TE 91/03/29	COMPLIANCE REVIEW PROGRAM					
05-600-0003-TE 91/03/13	LARGE CROP YEAR 1988 CLAIMS ADJUSTED BY CROP HAIL MANAGEMENT		\$122,588		\$411,205	
TOTAL: FEDERAL CROP INSURANCE CORPORATION		4	\$217,636		\$7,350,205	\$4,477,159
AGENCY - EXTENSION SERVICE						
06-005-0001-AT 90/12/31	UNIVERSITY OF THE DISTRICT OF COLUMBIA		\$157,515	\$60,756		
TOTAL: EXTENSION SERVICE		1	\$157,515	\$60,756		
AGENCY - FOREIGN AGRICULTURAL SERVICE						
07-001-0002-HY 91/03/25	GSM PROGRAM PRICING REVIEW		\$63,885,638			
07-080-0001-HY 91/03/21	EXPORT SALES REPORTING REQUIREMENTS					
07-099-0002-AT 90/12/11	GUARANTEES ON GSM 102 AND 103 TOBACCO SALES				\$6,219,645	
07-099-0023-HY 90/10/24	FOREIGN OPERATIONS AND CURRENCY USE PAYMENTS					
TOTAL: FOREIGN AGRICULTURAL SERVICE		4	\$63,885,638		\$6,219,645	
AGENCY - FOREST SERVICE						
08-099-0107-SF 91/01/31	FIREFIGHTING INVENTORY AND PROPERTY CONTROL					\$82,607
08-545-0048-SF 90/11/27	CONTRACT AUDIT/INCURRED COST RATE - TUOLUMNE COUNTY WATER DIST/PINECREST		\$56,020			
08-545-0050-SF 90/11/27	PRICE PROPOSAL REVIEW - PACIFIC MERIDIAN RESOURCES, EMERYVILLE, CA				\$51,833	

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AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE	IMPROPER AGENCY ACTION
08-545-0051-SF 90/10/25	DIRECT AND INDIRECT COST RATES - AEROSPACE CORP., EL SEGUNDO, CA-FYES 9/30/86 & 9/30/87					
08-545-0052-SF 90/10/22	DIRECT AND INDIRECT COST RATES - THE RAND CORP., SANTA MONICA, CA - FYE 9/30/86					
TOTAL: FOREST SERVICE		5	\$56,020		\$51,833	\$82,607
AGENCY - RURAL ELECTRIFICATION ADMINISTRATION						
09-600-0001-TE 91/03/29	FINANCIAL NEED CRITERIA				\$844,496,800	
09-600-0002-CH 91/03/29	ADMINISTRATION OF THE RURAL ECONOMIC DEVELOPMENT LOAN & GRANT PROGRAM		\$16,200		\$263,800	
TOTAL: RURAL ELECTRIFICATION ADMINISTRATION		2	\$16,200		\$844,760,600	
AGENCY - SOIL CONSERVATION SERVICE						
10-099-0011-KC 91/03/28	STATUS REVIEW PROCESS FOR CONSERVATION PLANS					
10-545-0014-KC 90/12/06	DGM CONSTRUCTION CONTRACT, OMNI CONSTRUCTION CO., MINNEAPOLIS, MN					
10-545-0026-HY 90/12/31	AUDIT OF COSTS INCURRED ON CONTRACT NO. 53-3J19-7-007, MODIFICATION 7					
10-545-0026-SF 91/02/26	EQUITABLE ADJUSTMENT CLAIM - RAMCO, INC. BOISE, ID				\$557,685	
10-545-0031-HY 90/12/20	ALLEGHENY CONSTRUCTION CO. CONTRACT DISPUTE				\$211,726	
TOTAL: SOIL CONSERVATION SERVICE		5			\$769,411	
AGENCY - OFFICE OF OPERATIONS						
23-545-0009-HY 91/01/11	INDIRECT RATE REVIEW-GREGORY K. WASHINGTON, CPA					
TOTAL: OFFICE OF OPERATIONS		1				
AGENCY - FOOD AND NUTRITION SERVICE						
27-006-0001-TE 91/03/19	FOOD STAMP PROGRAM COMPUTER MATCHING - NATIONWIDE ROLLUP					
27-016-0084-AT 91/03/08	FOOD STAMP PROGRAM, DADE COUNTY, MIAMI, FL		\$21,774	\$2,121	\$7,906,362	
27-023-0195-CH 91/03/29	ACCOUNTABILITY OVER THE NSLP - CLEVELAND BOARD OF EDUCATION		\$318,810	\$220,411		
27-023-0203-AT 91/01/14	AUDIT OF MOUND BAYOU SFA - NSLP AND BP SCHOOL YEARS		\$432,750			
27-028-0001-AT 90/11/15	SUMMER FOOD SERVICE PROGRAM - NONPROFIT SPONSORS		\$2,742	\$2,742		
27-028-0045-KC 91/01/09	SFSP NONPROFIT SPONSORS IN MO		\$949		\$845	
27-029-0347-HY 90/10/02	CCFP RICHMOND COUNTY ACTION HS		\$3,831			
27-029-0348-HY 90/11/08	CCFP STOP ORGANIZATIONS		\$12,458			
27-029-0349-HY 90/11/08	CCFP FORT EUSTIS FAMILY CC					
27-029-0350-HY 90/10/01	CCFP HONEY TREE EARLY LEARNING CENTERS		\$11,605			
27-070-0001-AT 91/02/05	DEBT MANAGEMENT INITIATIVES					
27-097-0004-AT 90/12/26	SOUTH CAROLINA FOOD STAMP PROGRAM - HURRICANE HUGO DISASTER ACTIVITIES		\$721,663	\$721,663		

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AUDIT NO. RELEASE DATE	TITLE	AUDITS RELEASED	QUESTIONED COSTS & LOANS	UNSUPPORTED COST & LOANS	FUNDS BE PUT TO BETTER USE	IMPROPER AGENCY ACTION
27-099-0002-FM 91/03/21	SECURITY AND CONTROLS OVER FNS REGIONAL OFFICE ADMINISTERED PROGRAMS PAYMENT SYSTEM					
27-099-0082-CH 91/03/13	REQUEST AUDIT OF BRAKEBUSH BROTHERS, INC. - WESTFIELD, WI		\$841,624			
27-600-0002-AT 91/02/27	SUPPLEMENTAL FOOD PROGRAM FOR WOMEN, INFANTS, AND CHILDREN - ADMINISTRATIVE COSTS					
27-600-0004-SF 91/01/03	WIC ADMINISTRATIVE COST		\$641,569	\$324,540	\$141,766	
27-600-0005-CH 90/12/04	SUPPLEMENTAL FOOD PROGRAM FOR WIC ADMINISTRATIVE COSTS - CHICAGO, IL		\$81,237			
TOTAL: FOOD AND NUTRITION SERVICE		17	\$3,091,012	\$1,271,477	\$8,128,973	
AGENCY - MULTI-AGENCY/DIVISION CODE						
50-099-0025-AT 91/03/25	DOD - EXTERNAL QUALITY CONTROL REVIEW					
50-099-0039-FM 91/03/29	EVALUATION OF USDA PAYMENT COLLECTION SYSTEMS				\$584,302	
50-099-0067-HY 91/03/29	SURVEY OF SECTION 32 FUNDS				\$23,291,884	
50-563-0075-SF 91/01/28	A-110 AUDITS OF UNIV. OF CA - OFFICE OF PRES. DIV. OF AG & NATURAL RESOURCES ENDED 6/30/89					
50-563-0076-SF 91/02/04	A-110 AUDIT OF UNIVERSITY OF CA BERKELEY, CA FYE 7/1/87-6/30/89					
50-563-0077-SF 91/03/04	A-110 AUDIT OF UNIVERSITY OF CALIFORNIA AT IRVINE, CA FYE 2 YR PD ENDED 6/30/89					
50-563-0177-AT 90/10/23	A-110, AUDIT OF GEORGIA SOUTHERN COLLEGE, STATESBORO, GA, FYE 6/30/89					
50-563-0179-AT 90/10/12	A-128, AUDIT OF NC A&T STATE UNIV., GREENSBORO NC, TWO FY'S ENDED 6/30/88 AND 6/30/89					
50-563-0180-AT 91/03/26	A-128, AUDIT OF SOUTH CAROLINA STATE COLLEGE ORANGEBURG, SC, FYE 6/30/89					
50-563-0182-AT 91/03/19	A-128, AUDIT OF SAVANNAH STATE COLLEGE, SAVANNAH, GA, FYE 6/30/89					
50-563-0183-AT 91/03/19	A-110 AUDIT OF THE UNIVERSITY OF MS AT UNIVERSITY, MS FYE 6-30-89					
50-563-0184-AT 91/03/25	A-110 AUDIT OF WAKE FOREST UNIVERSITY, WINSTON-SALEM, NC, FYE 6-30-89					
50-563-0186-AT 91/03/19	A-110 AUDIT OF THE RESEARCH TRIANGLE INST. RESEARCH TRIANGLE PARK, NC, FYE 9-30-90					
50-566-0010-TE 90/12/26	SINGLE AUDIT OF NM ST. UNIV., LAS CRUCES, NM, FOR THE YEAR ENDED JUNE 30, 1989		\$205			
50-566-0012-CH 90/11/06	SINGLE AUDIT OF THE MI DEPARTMENT OF AGRICULTURE		\$9,156			
50-566-0017-AT 91/03/26	A-128, AUDIT OF SC DEPT. OF AGRICULTURE, COLUMBIA, SC, TWO FYE'S 6/30/87 AND 6/30/88					
50-566-0023-AT 91/03/29	A-128 AUDIT OF GA DEPARTMENT OF AGRICULTURE, FYE 6/30/90					
50-566-0023-KC 91/03/18	A-128, ND DEPARTMENT OF AGRICULTURE, (2 YEARS ENDED 6/30/90), BISMARCK, ND					
50-566-0033-HY 90/12/04	PA SINGLE AUDIT QCR		\$396,589			
50-566-0034-HY 91/02/21	PUERTO RICO DEPARTMENT OF AGRICULTURE A-128 SFYE 6/30/89					
50-568-0076-HY 90/10/03	VA DEPARTMENT OF EDUCATION A-128, SFYE 6/30/88		\$31,326	\$31,326		
50-568-0077-HY 91/02/21	VA DEPARTMENT OF HEALTH, A-128 SFYE 6/30/89		\$461,963	\$461,963		
50-568-0078-HY 91/01/24	COMMONWEALTH OF MA, A-128 SFYE 6/30/89					
50-568-0079-HY 91/02/14	STATE OF NJ, SFYE 6/30/87 A-128					
50-568-0080-HY 91/02/21	STATE OF VT, A-128, SFYE 6/30/89		\$76,926	\$76,926		

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50-568-0081-HY 91/02/26	VA DEPARTMENT OF EDUCATION A-128, SFYE 6/30/89		\$33,466	\$33,466		
50-568-0170-TE 90/10/18	A-128 OK STATEWIDE AUDIT FOR THE YEAR ENDED JUNE 30, 1989					
50-568-0171-TE 90/10/19	OMB CIRCULAR A-128, AUDIT OF THE STATE OF TX FOR THE YEAR ENDED AUGUST 31, 1989		\$472,061	\$472,061		
50-568-0187-AT 90/10/12	A-128, AUDIT OF SC DEPT. OF MENTAL RETARDATION, FYE 6/30/89					
50-568-0189-AT 90/10/23	A-128, AUDIT OF KNOX COUNTY, TN FYE 6/30/89					
50-568-0191-AT 90/11/30	A-128, AUDIT OF THE STATE OF MS FYE 6/30/89					
50-568-0192-AT 90/10/30	A-128, AUDIT OF GA DEPT. OF HUMAN RESOURCES FYE 6/30/89					
50-568-0193-AT 90/11/01	A-128, AUDIT OF CITY OF ALBANY, GA FYE 6/30/89					
50-568-0194-AT 90/11/02	A-128, AUDIT OF GWINNETT COUNTY, GA FYE 12/31/89					
50-568-0195-AT 90/11/09	A-128, AUDIT OF THE STATE OF NC FYE 6/30/89					
50-568-0197-AT 91/03/08	A-128, AUDIT OF FLORENCE COUNTY, SC FYE 6/30/89					
50-568-0198-AT 91/03/21	A-128, AUDIT OF THE CITY OF BIRMINGHAM, AL, FYE 6/30/90					
50-568-0198-CH 90/10/01	SINGLE AUDIT OF THE INDIANA STATE BOARD OF HEALTH					
50-568-0199-CH 90/10/24	SINGLE AUDIT OF THE IN DEPT OF HUMAN SERVICES					
50-568-0200-CH 90/12/18	SINGLE AUDIT ON WAYNE COUNTY, MI					
50-568-0201-CH 91/02/01	SINGLE AUDIT ON THE CITY OF SAGINAW, MI					
50-568-0202-AT 91/03/21	A-128 AUDIT OF SC WILDLIFE & MARINE RESOURCES DEPT., COLUMBIA, SC, FYE 6-30-87					
50-568-0233-KC 90/10/16	A-128, NE DEPARTMENT OF HEALTH, (FY ENDED 6/30/89)					
50-568-0234-KC 90/12/04	A-128, STATE OF SD, (FY ENDED 6/30/89), PIERRE, SD		\$29,969	\$350		
50-568-0235-KC 90/12/04	A-128, STATE OF IA (YEAR ENDED 6/30/89), DES MOINES, IA					
50-568-0236-KC 91/03/12	A-128, STATE OF MT, (YEAR ENDED 6/30/89) HELENA, MT		\$18,437	\$3,428		
50-568-0394-SF 90/10/03	A-128 - CONFEDERATED TRIBES OF THE COVILLE RESERVATION - FYE 9/30/89		\$2,525			
50-568-0395-SF 90/10/01	A-128 - CITY OF FRESNO, CA FYE 6/30/89					
50-568-0396-SF 90/10/23	A-128 AUDIT - HI DEPARTMENT OF HEALTH FYE 6/30/89					
50-568-0397-SF 90/10/18	A-128 AUDIT - CITY OF LOS ANGELES, CA FYE 6/30/89					
50-568-0398-SF 90/10/30	A-128 AUDIT OF REPUBLIC OF PALAU, FYE SEPTEMBER 30, 1988		\$1,670			
50-568-0399-SF 90/10/22	A-128 AUDIT OF KING COUNTY, SEATTLE, WA FYE DECEMBER 31, 1989					
50-568-0400-SF 90/10/31	A-128 AUDIT OF POHNPEI STATE GOVERNMENT, FYE SEPTEMBER 30, 1988		\$257,743	\$257,743		
50-568-0401-SF 90/11/02	A-128 AUDIT OF DEPARTMENT OF HUMAN SERVICES, HONOLULU, HI FYE JUNE 30, 1989		\$461			
50-568-0403-SF 91/01/22	A-128 AUDIT OF CHUUK STATE GOVERNMENT, FEDERATED STATES OF MICRONESIA FYE 9/30/88		\$896	\$896		
50-568-0404-SF 91/02/04	A-128 AUDIT OF MANILA ASSOCIATION, KOTZEBUE, AK FYE 9/30/89					
50-568-0405-SF 91/01/28	A-128 AUDIT OF CITY OF FRESNO, FRESNO, CA FYE JUNE 30, 1990					

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50-568-0406-SF 91/01/15	A-128 AUDIT OF COMMONWEALTH OF THE NORTHERN MARIANA ISLANDS, FYE SEPTEMBER 30, 1986		\$56,786	\$39,262		
50-568-0407-SF 91/01/30	A-128 AUDIT OF COUNTY OF RIVERSIDE, CA FYE JUNE 30, 1989					
50-568-0408-SF 91/02/04	A-128 AUDIT OF COUNTY OF EL DORADO, PLACERVILLE, CA FYE JUNE 30, 1989					
50-568-0409-SF 91/02/05	A-128 AUDIT OF HI DEPT. OF EDUCATION, HONOLULU, HI FYE JUNE 30, 1989					
50-568-0410-SF 91/02/01	A-128 AUDIT OF AK DEPT. OF PUBLIC SAFETY, JUNEAU, AK FYE JUNE 30, 1988					
50-568-0411-SF 91/02/06	A-128 AUDIT OF STATE OF NV, CARSON CITY, NV FYE JUNE 30, 1989					
50-568-0412-SF 91/02/28	A-128 AUDIT OF CITY OF LOS ANGELES, LOS ANGELES, CA FYE JUNE 30, 1989					
50-568-0413-SF 91/03/01	A-128 AUDIT OF AZ DEPT. OF ECONOMIC SECURITY, PHOENIX, AZ FYE JUNE 30, 1988					
50-568-0414-SF 91/03/26	A-128 AUDIT OF STATE OF CA FYE 6/30/89		\$147,000			
TOTAL: MULTI-AGENCY/DIVISION CODE		66	\$1,997,179	\$1,377,421	\$23,876,186	
TOTAL: RELEASE - NATIONWIDE		168	\$82,026,637	\$10,801,611	\$902,515,819	\$10,754,293